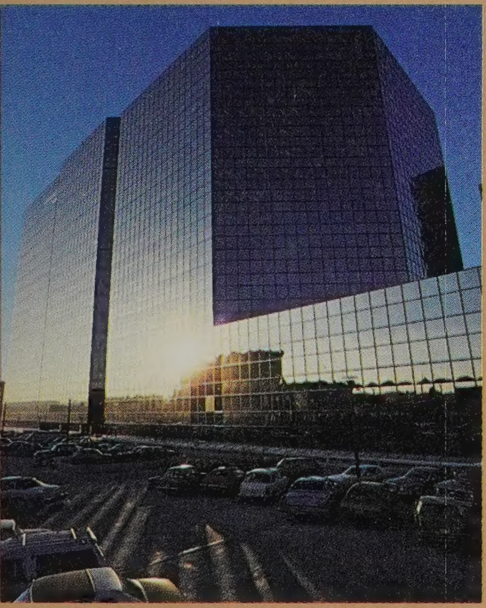
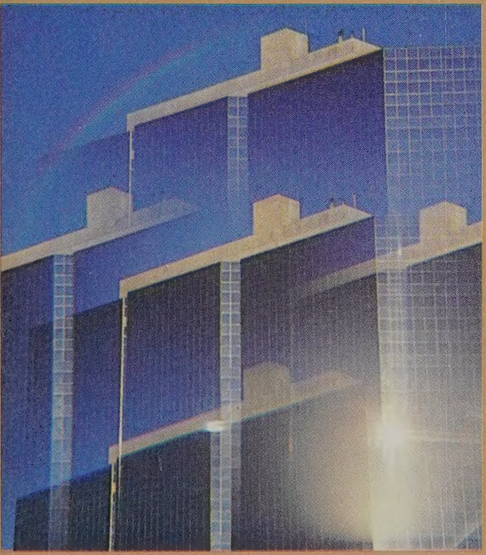
# GULF CANADA LIMITED
# 1979 ANNUAL REPORT





# The year in brief

| Financial | 1979 | 1978 |
|---|---|---|
| | *Millions of dollars* | |
| Earnings for the year —before Syncrude gain | $ 274 | $ 187 |
| — total including Syncrude gain | $ 288 | $ 187 |
| Taxes and other government revenues generated | $ 928 | $ 793 |
| Total dividends declared | $ 68 | $ 52 |
| Shareholders' equity at year-end | $1,639 | $1,419 |
| Capital and exploration expenditures | $ 410 | $ 485 |
| Working capital | $ 661 | $ 478 |
| Long-term liabilities | $ 333 | $ 350 |
| Return on average capital employed | | |
| — excluding Syncrude gain | 12.8% | 9.9% |
| — including Syncrude gain | 13.5% | 9.9% |
| **Per Share Data** | | |
| Earnings for the year — before Syncrude gain | $ 6.02 | $ 4.11 |
| — total including Syncrude gain | $ 6.33 | $ 4.11 |
| Total dividends declared | $ 1.50 | $ 1.14 |
| Shareholders' equity at year-end | $36.02 | $31.19 |
| **Operating** | | |
| | *Cubic metres per day* | |
| Crude and natural gas liquids produced | | |
| Conventional — gross | 21,500 | 17,800 |
| — net | 14,800 | 11,900 |
| Synthetic — net | 1,100 | — |
| Crude oil processed by and for the Corporation | 50,600 | 47,900 |
| Petroleum products sold | 42,900 | 42,800 |
| | *Thousands of cubic metres per day* | |
| Natural gas produced and sold | | |
| — gross | 11,000 | 10,500 |
| — net | 7,800 | 7,600 |
| | *Kilograms per day* | |
| Petrochemical sales | 1,394,000 | 1,295,000 |

# 1979 Annual Report

Contents



**Annual Meeting**

The Annual Meeting of Shareholders will be held in the Concert Hall of the Royal York Hotel, Toronto, at 2:00 p.m. E.S.T., Thursday, April 24, 1980.

**Front Cover**

The moods and spirit of downtown Calgary are reflected by the 20-storey Gulf Canada Square — new headquarters for Gulf Canada Resources Inc. Officially opened in December, the energy-efficient building uses a unique system which stores and utilizes heat generated by the occupants, lighting and equipment, enabling the complex to operate on less than half as much energy as structures of conventional design.

*Ce rapport est disponible en français sur demande.*

**Conversion to Metric**

During 1979 the Canadian petroleum industry commenced using the International System of Units, commonly called the metric system, to report figures related to length, area, volume and mass.

The narrative in this year's Annual Report gives figures in the metric measure followed by the corresponding traditional figure in brackets. Graphs and tables are in metric measure only.

For the convenience of shareholders, a conversion table appears on the tinted sheet at the back of the report.

MARCH
26, 1980

# Report to the shareholders

*J.C. Phillips, Chairman of the Board; J.L. Stoik, President and Chief Executive Officer.*

While the 1970s could be described as a decade of adjustment to dwindling oil supplies and drastically rising prices, the 1980s promise to be characterized by tight supply problems and massive investments.

During the last year of the 1970s, significant events heralded a possible turning point in Canada's continuing quest for energy self-sufficiency. While tremendous energy developments and conservation efforts continue to be required if self-sufficiency is to be attained before the end of this century, important discoveries and developments in which Gulf Canada has major interests brought the nation's self-sufficiency aspirations closer to reality.

Our Corporation's strong acreage position in the most prospective areas of Canada is perhaps the key to our exploration success — which was one of the highlights of 1979 activities.

While Gulf Canada's acreage spread may not be the largest in the industry, we believe it is probably the most strategically-located land position, with good representation in all the most prospective areas. In the frontier exploration areas in which we participated, oil was discovered in both the Beaufort Sea and off the East Coast. In the Beaufort Sea, the Kopanoar well, in which Gulf Canada has a 25 per cent interest, has been calculated to be capable of producing 1,900 cubic metres (12,000 barrels) per day while other wells in which we have a major interest are slated for completion in 1980. Off the East Coast, the Hibernia well, in which the Corporation also has a 25 per cent interest, indicated a producing capability in excess of 3,200 cubic metres (20,000 barrels) per day, the largest oil flow rate to date in Canada.

In the Arctic Islands, Gulf Canada will have, upon completion of the Arctic Islands Exploration Group's program, a 32.5 per cent interest in the major Whitefish gas discovery area.

Although the frontiers attracted most attention in 1979, almost 60 per cent of Gulf Canada's total exploration budget continued to be spent in western Canada, resulting in an oil discovery on the Blood Indian Reserve west of Lethbridge, a major gas discovery at Medicine Lodge, and a number of lesser oil and gas discoveries.

Notwithstanding current optimism for the frontiers, it would be a mistake if Canada did not keep pressing ahead with projects and improved technology to recover oil from our vast oil sands and heavy oil deposits in Alberta and Saskatchewan. The Corporation is active in the development of both these energy resources.

With higher world prices, Syncrude operations should be profitable in 1980, although it will be many years before the $2.2-billion invested in the project will be recovered by the partners. In addition to our Corporation's interest in Syncrude, we have indicated our intent to take an eight per cent share of the Alsands project, and are also interested in participating in Imperial Oil's Cold Lake project.

Given the proper political and economic environment, we believe that Canada could achieve self-sufficiency by the early to mid-nineties. However, mammoth capital expenditures will be required and opportunities will exceed the industry's estimated internal cash flow and the funds available from Canadian capital markets if the many new tar sands and upgrading plants are to be built.

Gulf Canada was encouraged by the Canadian government's agreement to increase exports of natural gas to the United States by up to 40 per cent. While the approved volumes are conservative, they will benefit Canada's balance of trade in oil and gas and will generate cash flows for producing companies, enabling them to sustain and, hopefully, accelerate their search for new oil and gas reserves.

It is of concern, however, that less than half the authorized gas exports are scheduled to be transported through the pre-built portion of the Foothills Pipeline. These relatively small volumes may not be sufficient to help provide adequate financing for this line, which is regarded as the essential first step in construction of the Alaska Highway and Dempster lines which may eventually provide access to gas reserves already found in the Mackenzie Delta and Beaufort Sea.

The world, and to a lesser extent Canada, is faced with a tough supply outlook in the 1980s. The tight situation may put an end to the depressed price conditions in refining and marketing which prevailed during most of the 1970s.

Offshore crude oil shortages in eastern Canada and industry refinery problems combined in 1979 to create a very tight supply situation, which was compounded by an unexpected growth in demand for products, particularly gasoline.

Measures necessary to counteract the potential shortages included allocation to some Gulf Canada customers, reducing hours of operation at many company-owned stations, and purchasing product on the spot market at considerable resale losses.

Chemicals operations showed marked improvement in results last year, with prices improving substantially. As a result, a 33 per cent expansion to the cyclohexane unit at Montreal East refinery is being contemplated. At the Shawinigan plant, modernization of a calcium carbide furnace has helped to improve its efficiency. This plant is now marginally profitable, and new steelmaking technology involving the use of calcium carbide could improve the long-term outlook of this operation.

It is planned that the ethylene plant at Varennes on the south shore of the St. Lawrence River will become part of a new consortium called Petromont Inc., which also involves Union Carbide Canada Limited and the Quebec government as equal partners. The objective of the Petromont partners is to build an efficient operation as the basis for perhaps doubling the present ethylene-producing capacity to a world-scale level of 550,000 tonnes (1.2 billion pounds) per year.

Based on results over the past few years, the decade ahead promises to be one of improved performance in terms of returns from marketing operations, which were severely depressed during most of the 70s.

A marked improvement in the industry's return on capital employed holds promise for the industry's ability to be able to tackle the massive undertakings ahead, which the latest Canadian

Petroleum Association studies indicate will be as high as $200 billion over the next decade.

In order to undertake investments of this magnitude, the industry must have the necessary cash flow and appropriate revenue-sharing regime on rising gas and oil prices — and even then large-scale borrowing will be required.

In the frontier areas alone, the industry calculates that it will spend between $70 and $90 billion on exploration and development before 1990.

With individual frontier wells now costing up to $80 million, continued fiscal incentives will be required to maintain the momentum of exploration in the frontier and conventional areas which led to significant discoveries in the past two years.

If Canada is to achieve its self-sufficiency objective, revenue-sharing by governments must permit sufficient funds to flow through the industry in order that these massive investments can be undertaken at the pace required. The industry has clearly demonstrated that it is anxious to pursue its reinvestment record, which could scarcely be higher.

Gulf Canada's record earnings in 1979 do not compare with the almost half billion dollars invested in energy projects last year or the $480 million the Corporation will have to spend to take an eight per cent interest in the Alsands project.

Consolidated net earnings in 1979 were $274 million or $6.02 per share, compared with $187 million or $4.11 per share earned in 1978. These 1979 earnings are before a non-recurring gain of $14 million or $0.31 per share resulting from the option exercised by the Alberta Energy Company Ltd. to acquire 20 per cent of Gulf Canada's interest in the Syncrude project. Earnings after the gain on the Syncrude sale were $288 million or $6.33 per share.

Natural resource earnings continued to improve as a result of increased production and higher selling prices of crude oil and natural gas. Refined product and chemicals earnings were up significantly, reflecting firmer prices and operating efficiencies.

Net revenues rose $474 million to $3,058 million. Income and other taxes increased $92 million to $337 million. Details of financial and operating results appear later in this report.

On January 1 of last year, the Corporation established a Calgary-based resource subsidiary, Gulf Canada Resources Inc., and at mid-year a similar downstream division, Gulf Canada Products Company, based in Toronto. President of the resources company is S.K. McWalter and president of the products company is L.P. Blaser.

The reorganizations are part of a strategy designed to make the best use of manpower, financial and other resources in order to take advantage of the opportunities which are open to us and remain responsive to the changing markets in which our products are sold. We believe the steps taken will enable us to better meet the competition and ensure our continued success as an energy company with related interests in minerals and chemicals.

Following the Annual General Meeting of Shareholders on April 26, 1979, the Board of Directors elected President J.L. Stoik as Chief Executive Officer. At the same meeting, Executive Vice-President J.C. Phillips was elected Chairman of the Board, effective August 1, 1979, succeeding Clarence D. Shepard who retired. Mr. Shepard, who had been Chairman since 1964 and Chief Executive Officer since 1976, continues as a Director of the Corporation.

Gulf Canada enters the new decade with the expectation that governments will enact the proper policies which will enable our Corporation to accomplish the job required towards providing energy self-sufficiency for Canada. We are grateful for the expertise and teamwork of the dedicated men and women in our employ who will help ensure that the job is done.

On behalf of the Board,

Chairman of the Board.

President.

Toronto, Ontario, March 21, 1980.

# Financial review

## Earnings

Earnings from operations for the year amounted to $274 million or $6.02 per share, compared with $187 million or $4.11 per share for 1978. These 1979 earnings are before a non-recurring gain of $14 million or $0.31 per share resulting from the option exercised by the Alberta Energy Company Ltd. on August 30, 1979, to acquire 20 per cent of Gulf Canada's interest in the Syncrude project. Earnings after the gain on the Syncrude sale were $288 million or $6.33 per share. The Corporation's return on average capital employed, which was almost ten per cent in 1978, improved to 12.8 per cent in 1979, or 13.5 per cent if the Syncrude gain is included.

The Corporation, which accounts for its exploration and production activities on the successful efforts method, revised certain of its practices in 1979 to conform to a uniform successful efforts method adopted by other major integrated oil companies. Earnings for 1978 have been restated to reflect an increase of $4 million or $0.09 per share resulting from this revision. Its effect on 1979 has been to increase earnings by $8 million or $0.18 per share.

Net revenues rose $474 million to $3,058 million while expenses increased $295 million to $2,447 million, reflecting the higher cost of crude oil and increased operating expenses due to the inclusion of Syncrude and the Clarkson lube plant operations which began in 1979. Income and other taxes increased $92 million to $337 million. Total taxes and other government revenues are shown in Table I.

Natural resource profits were $201 million, an increase of $46 million over 1978 as a result of higher volumes of crude oil produced which increased 21 per cent in 1979 to 21,500 cubic metres (135,000 barrels) per day. Natural gas sales volumes rose about four per cent to 11,300 thousand cubic metres (398 million cubic feet) per day. Higher selling prices also contributed to the improved earnings. Partially offsetting these favorable factors were higher exploration and dry hole expenses which increased 44 per cent to $166 million, reflecting increased drilling activity and the higher costs of drilling, particularly in the Beaufort Sea and East Coast offshore areas. The Corporation's proportionate share of the Syncrude project production and costs has been included in earnings from March 1, 1979. Due to start-up and other technical operating problems, production at the plant averaged only 7,900 cubic metres (49,500 barrels) per day compared with a designed capacity of 19,900 cubic metres (125,000 barrels) per day which resulted in the operation showing a small loss for the year.

Refined products and chemicals earnings improved significantly from $30 million in 1978 to $72 million mainly as a result of firmer prices and increased manufacturing and marketing efficiencies. However, earnings from these operations are still well below an acceptable level of return on capital employed and further improvements will be needed in the future if the necessary funds are to be available to finance replacement and improvement of facilities. Volumes of petroleum products sold remained approximately the same as last year at 43,000 cubic metres (270,000 barrels) per day while refinery runs were five per cent higher, amounting to 50,000 cubic metres (317,000 barrels) per day in 1979.

## Financial position

Capital and exploration spending totalled $410 million, a decrease of $75 million from last year due to the completion of the construction phase of the Clarkson lube plant and the Syncrude project in 1978 as shown in Table II. Projected capital and exploration spending in 1980 will rise to $650 million, an increase of $240 million over the $410 million spent in 1979.

Working capital was up by $183 million, reflecting the greatly increased investment necessary in accounts receivable and inventories caused by higher product prices and larger volumes on hand over those of a year ago. Dividends declared during 1979 totalled $68 million or $1.50 per share.

## Impact of inflation on earnings

Inflation continues to be a serious problem in Canada. Based on the Consumer Price Index, the general purchasing power of the dollar is half that of 1971. Corporate financial statements, however, are based on historical cost accounting methods and, therefore, do not adequately portray the cumulative impact of price inflation.

The search continues for an appropriate method of addressing this complex subject and efforts are being accelerated to disclose some of inflation's impact in financial statements. Two approaches, constant dollar accounting and current cost accounting, have emerged for more detailed scrutiny and experimentation. The former is intended to restate historical cost amounts to account for general inflation; the latter is intended to measure assets in terms of current costs and to recognize specific changes in the prices of goods and services experienced by individual companies. The U.S. Financial Accounting Standards Board recently released a standard calling for supplementary information following both methods. In late 1979 The Cana-

dian Institute of Chartered Accountants issued an exposure draft of its proposals on current cost accounting calling for supplementary disclosures of the effects of specific changes in the cost of a company's inventories and properties.

Adjustments to reported profits to reflect the effects of inflation and changing prices can be significant. The following table illustrates the unfavorable impact upon Gulf Canada's reported 1979 earnings of $288 million when two major elements that are most affected by inflation are adjusted for the change in the dollar's purchasing power as measured by the Consumer Price Index.

| | Millions of dollars |
|---|---|
| Plant and Equipment: | |
| Additional depreciation calculated on plant and equipment after restating original cost to 1979 dollar levels | $90 |
| Inventories: | |
| Additional cost involved after restating original cost of products sold to 1979 levels at date of sale | $40 |

Partially offsetting these unfavorable impacts is a theoretical gain of $50 million resulting from the assumption that less purchasing power is required to pay off net liabilities when such obligations become due.

While indicative, the foregoing perspective does not address certain features unique to a resource company like Gulf Canada. For example, the cost of replacing oil and gas reserves by exploration in frontier areas or development of unconventional resources dramatically exceeds the original cost of finding and developing existing conventional reserves. Consequently, the Corporation's traditional financial statements do not provide the most appropriate basis for assessing its economic position. In publishing its recent exposure draft on current cost accounting, the CICA recognized these unique circumstances and plans to work closely with the resource industries in addressing them.

## Table I — Taxes and Other Government Revenues

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| From Gulf Canada | | |
| Income taxes — current | $ 119 | $ 34 |
| — deferred | 28 | 71 |
| Federal sales tax, property taxes, etc. | 190 | 140 |
| Petroleum and natural gas lease payments | 59 | 44 |
| *Crown royalties, less incentive credits | 232 | 187 |
| | $ 628 | $ 476 |
| Collected for governments | | |
| Gasoline, fuel, excise and export taxes | 300 | 317 |
| Grand total | $ 928 | $ 793 |

* Included in purchased crude oil, products and merchandise in the consolidated statement of earnings.

## Table II — Capital and Exploration Expenditures

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| **Additions to Property, Plant and Equipment** | | |
| Exploration | $ 66 | $ 53 |
| Production | 50 | 52 |
| Syncrude project | 6 | 82 |
| In-situ oil sands and coal | 6 | 48 |
| Transportation | 3 | 2 |
| Refining | 18 | 74 |
| Petrochemicals | 4 | 19 |
| Marketing | 22 | 29 |
| Other | 69 | 11 |
| Total | $ 244 | $ 370 |
| **Exploration expenditures** | 166 | 115 |
| Total capital and exploration expenditures | $ 410 | $ 485 |

# Natural resources

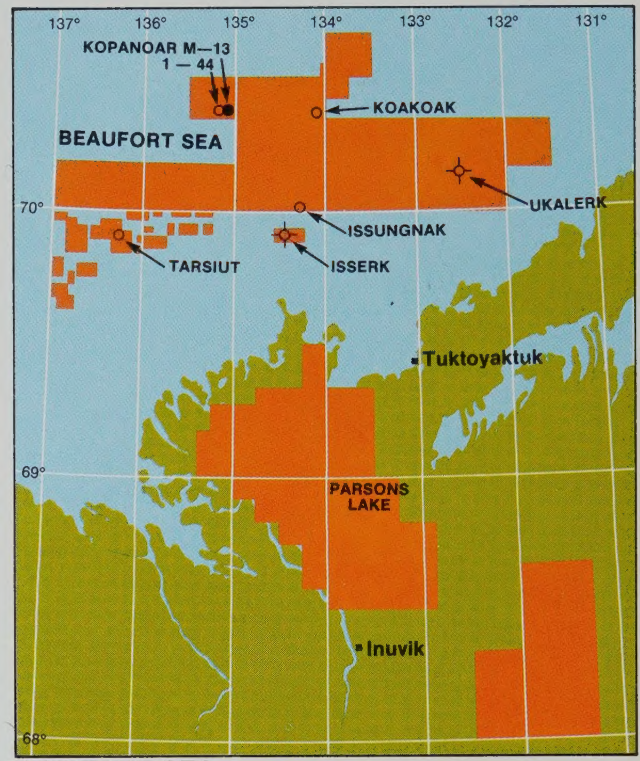
Gulf Canada Resources Inc. (GCRI) invested nearly $300 million during 1979 compared with $350 million the previous year in the exploration for, and the production and development of petroleum resources, coal and minerals.

The major reasons for lower resource spending in 1979 were reduced expenditures for Syncrude and new energy development. With respect to Syncrude which came on production in 1978, expenditures in 1979 primarily were limited to completion and modification costs. New energy development expenditures decreased from 1978 when the company acquired major coal properties in the Belcourt area of northeastern British Columbia. These declines, however, were partially offset by an increase in exploration expenditures which were about 40 per cent higher than in 1978.

After-tax earnings from natural resources were $201 million, $46 million higher than in 1978, and accounted for 70 per cent of Gulf Canada's consolidated net earnings. The improvement reflected higher prices and volumes for crude oil and natural gas which more than offset increased operating costs and exploration expenses.

**Natural Resource Capital and Exploratory Spending**

| | 1979 | 1978 |
|---|---|---|
| | *(millions of dollars)* | |
| Conventional oil and gas | $ 60 | $ 59 |
| Syncrude | 6 | 82 |
| New energy development | 16 | 59 |
| Exploration | 209 | 147 |
| Minerals | 3 | 3 |
| Total resource expenditures | $294 | $350 |



BEAUFORT SEA

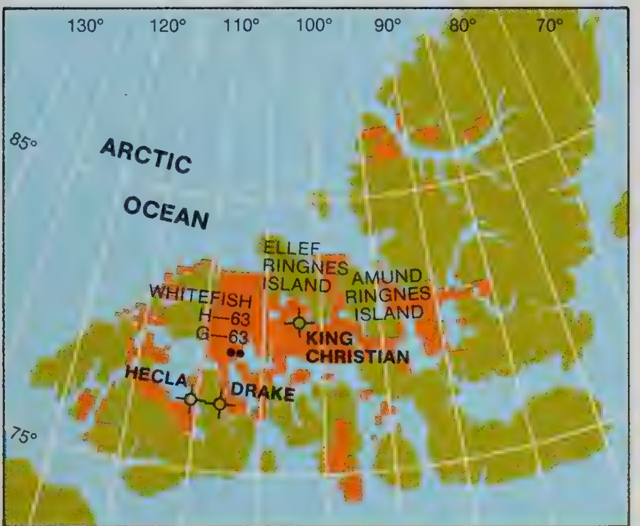
## Exploration

The 1979 exploration program of Gulf Canada Resources was highlighted by participation in important oil and gas discoveries in the Arctic, East Coast offshore, and western Canada. In addition to these programs in the frontier and traditional areas of western Canada, the company was a one-third participant in the first stage of a successful evaluation program of Saskatchewan heavy oil acreage.

GCRI's involvement in these and other successful programs reflects a continued high level of exploratory expenditures and the quality of the company's holdings.

*Land*

At year-end, Gulf Canada Resources had interests in approximately 37 million gross hectares (91.3 million gross acres) in the Beaufort Sea, Arctic Islands, East Coast offshore, western Canada and the territories, with a net interest of 12 million hectares (29.6 million acres). A one million net hectare (2.5 million net acre) increase during 1979 included important acquisitions such as an interest in 42,500 hectares (105,000 acres) of potential heavy oil lands in Saskatchewan and 12,200 hectares (30,000 acres) of lease and permit lands in southern Alberta's Blood Indian Reserve near the company's recent oil discovery.




ARCTIC ISLANDS


EAST COAST

**Frontiers**

*Beaufort Sea*

The highlight of industry exploratory activity in the Beaufort Sea summer drilling season was the Kopanoar M-13 discovery which had been drilled to total depth in 1978 but not tested until 1979. This well, in which GCRI has a 25 per cent interest, was reported by the operator to be capable of producing 1,900 cubic metres (12,000 barrels) of oil per day. Kopanoar is one of five Beaufort Sea exploratory wells in which the company participated. The other four wells will be completed in 1980.

In October mechanical difficulties forced abandonment of a delineation well, Kopanoar 2L-34, four kilometres (2.5 miles) west of the discovery. This well will be re-drilled.

Late in the season drilling started at Koakoak 0-22, a wildcat location 35 kilometres (22 miles) east of the Kopanoar discovery.

Ukalerk 2C-50, drilled in 1978 and tested in 1979, flowed gas from the same zone that was identified in the first Ukalerk wildcat, some 245 metres (800 feet) to the northwest.

GCRI has a 56.25 per cent interest in the Tarsiut A-25 well which finished drilling last summer but was not tested prior to season end.

Although the season closed in late November, one well will be drilled in the Beaufort this winter from an artificial island constructed by dredging during the past two summers. This well, the Issungnak 0-61, which will cost over $70 million, is located ten kilometres (six miles) north of the Isserk gas discovery on acreage pooled with Esso Resources Canada Limited. GCRI's working interest is 29 per cent.

**Land Holdings**
**as of December 31, 1979**

| | (millions of hectares) gross | net |
|---|---|---|
| Western Canada | | |
| Conventional petroleum and natural gas | 3.1 | 1.8 |
| Oil and bituminous sands | 0.3 | 0.2 |
| Yukon, Northwest Territories and Delta | 2.0 | 1.0 |
| Beaufort Sea | 1.1 | 0.5 |
| Arctic Islands | 10.4 | 2.4 |
| Atlantic | 20.1 | 6.1 |
| Total | 37.0 | 12.0 |

Frontier figures include options

*The Kopanoar M-13 well, capable of producing 1,900 cubic metres (12,000 barrels) per day, was one of five Beaufort Sea exploratory wells in which Gulf Canada participated.*

The company plans to continue to participate in Beaufort Sea drilling in 1980. GCRI's share in 1.1 million gross hectares (2.7 million gross acres) of permits in the Beaufort is nearly 500,000 net hectares (1.1 million net acres). Since 1976 the company has participated in drilling nine wells, of which four will be completed in 1980.

In the Mackenzie Delta, GCRI's 37 billion cubic metres (1.3 trillion cubic feet) of proved gas reserves are dependent upon a transportation system to markets in the south.

*Arctic Islands*

In the Arctic Islands, GCRI has 2.4 million net hectares (5.9 million net acres) out of a total 10.4 million gross hectares (25.8 million gross acres), and since 1972 has participated in the drilling of 14 wells.

Drilled from an ice island, Whitefish H-63 was a major gas discovery in 1979 for the Arctic Islands Exploration Group (AIEG) in which the company has a 25 per cent interest. By spending $80 million this group is earning interests farmed out from Suncor and Global Arctic Islands Limited. Because Gulf Canada Resources already had an interest in the acreage in this area, our share in the Whitefish discovery acreage will be 32.5 per cent. Initial estimates suggest reserves exceeding

*In the Arctic Islands, the Whitefish well, in which Gulf Canada will have a 32.5 per cent interest, was a major natural gas discovery. It is shown here flaring gas during a brief test.*

85 million cubic metres (three trillion cubic feet). In November a step-out well, Whitefish G-63, began drilling 245 metres (800 feet) west of the discovery, also from a strengthened ice platform. The step-out well will test the primary producing horizons at the H-63 discovery and the deeper zones that correspond to the productive zones at the Hecla and Drake fields 110 kilometres (70 miles) to the southwest.

Two other AIEG wildcats to be drilled in 1980 will be in the vicinity of Ellef Ringnes and King Christian Islands.

*East Coast Offshore*

Last year was the industry's most active to date on Canada's East Coast offshore. GCRI participated in five of the eight drilling vessels operated through the summer and in 25.9 per cent of the expenditures in four wells drilled by the Labrador Group. Bjarni 0-82 flowed nearly 200,000 cubic metres (seven million cubic feet) of gas and 12 cubic metres (75 barrels) of condensate per day, with testing to be completed in 1980. Roberval K-92 was also suspended until 1980 because mechanical difficulties prevented testing a potential hydrocarbon bearing zone below 3,000 metres (10,000 feet).

Gilbert F-47 was spudded in late August and will continue drilling next summer; Tyrk P-100 was dry and abandoned.

On the Grand Banks south of the Labrador Group acreage, the company has a ten per cent interest in the Hare Bay H-31 well, which also was dry and abandoned.

At year-end, testing was completed at the Hibernia P-15 oil discovery. Drilled 310 kilometres (193 miles) east of Newfoundland in 80 metres (270 feet) of water, a series of tests identified three principal zones of oil accumulation and indicated a total producing capability in excess of 3,200 cubic metres (20,000 barrels) per day.

As final tests of the P-15 well were being completed, the first step-out, Mobil et al Hibernia O-35, began drilling four kilometres (2.5 miles) west of the discovery, as well as a wildcat, Ben Nevis, 37 kilometres (23 miles) southeast of Hibernia.

If the step-outs are successful and appropriate governmental regulations can be negotiated, commercial production of the Hibernia reservoir could commence within five years. Sufficient oil reserves must be established to justify the large investment required to bring the discovery into production. Total cost of the discovery well was more than $40 million.

*Western Canada*

Industry exploration expenditures continued at record levels in western Canada where Gulf Canada Resources spent $116 million, about 60 per cent of its exploration budget.

The company participated in the drilling of 84 gross exploratory wildcat wells, of which 12 gas and 31 oil were successful and 41 were dry. These totals include suspended wells where testing and evaluation are required prior to confirming the existence of proved reserves.

An important foothills gas discovery in which the company has a major interest was at Medicine Lodge 5-25. The well flowed 1.6 million cubic metres (55 million cubic feet) of gas per day under test and has a calculated open flow potential of 4.5 million cubic metres (159 million cubic feet) per day. Gulf Canada Resources has a 68.75 per cent interest in this discovery which is located on a 2,460 hectare (6,080 acre) lease block that is part of the company's large land holdings in the area. Further drilling on this pool is planned with the gas probably being tied in to the proposed Robb-Hanlan gas plant.

GCRI also has a 25 per cent interest in the Blood 10-30 oil discovery in southern Alberta which tested at over 80 cubic metres (500 barrels) of oil per day. The company subsequently improved its acreage position in the immediate area and during 1980 will participate in several wildcat and development wells.

Forty-three exploratory wells were drilled in the conventional heavy oil area of western Saskatchewan, most on the Saskatchewan Heavy Oil Project (SHOP) agreement acreage, resulting in 27 potential oil wells and four gas discoveries. Under the SHOP agreement, GCRI and partners Petro-Canada and Saskoil can each earn a one-third interest in 65,800 lease hectares (162,500 acres) by the shared expenditure of $99 million.

Heavy oil along the Saskatchewan-Alberta border is designated as "conventional" because it can be produced by normal production methods. Although a low recovery of the oil in place will result from normal production practices, it is anticipated that recovery will be substantially increased by enhanced techniques.

*In a series of tests, the Hibernia discovery well, 310 kilometres (193 miles) east of Newfoundland, indicated a total producing capability of 3,200 cubic metres (20,000 barrels) per day.*

*The Sedco 709 rig drilled the first Hibernia step-out well.*

## Production

*Crude Oil*

High levels of crude oil production resulted from strong demand throughout Canada and oil swaps with the United States, by which western oil was exchanged for offshore oil delivered to eastern refineries. The swaps were made necessary by disruption and shortages in international supply.

Gross average daily oil production from 1,224 net wells was 18,200 cubic metres (115,000 barrels), up 24 per cent from 1978. Natural gas liquids production averaged 3,300 cubic metres (21,000 barrels) per day, a seven per cent increase.

The major enhanced recovery miscible flood project in the South Swan Hills field of Alberta continued to operate successfully. In Saskatchewan, the Willmar field pilot test remained on waterflood, with miscible fluid injection expected to start this year. Four additional company-operated miscible projects in mature oil fields, together with four partner-operated programs, are expected to increase recoverable reserves significantly.

*Natural Gas*

Demand for natural gas was marginally higher than in previous years and resulted in increased sales. Average daily sales from company reserves were eleven million cubic metres (389 million cubic feet) from 354 net wells.

Although the federal government approved the export of 105.6 billion cubic metres (3.75 trillion cubic feet) of natural gas to the U.S. over an eight-year period, there will continue to be shut-in capacity for GCRI and other producers in the foreseeable future.

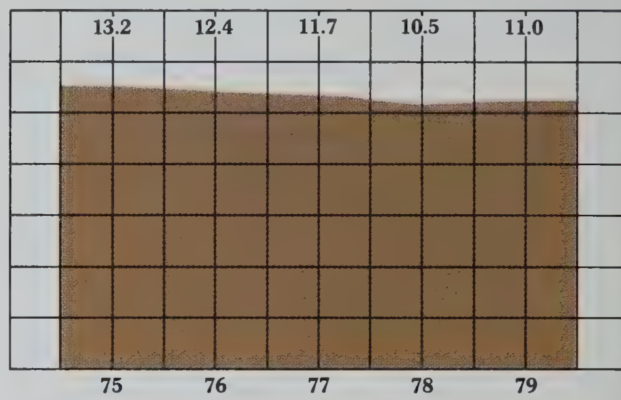
Over the next few years the company expects to maintain its share of natural gas production. The decline in deliverability from mature gas fields should be offset by shut-in capacity, averaging 14 per cent in 1979, and by new discoveries, particularly in the foothills.

A new foothills gas plant is planned near Edson, Alberta, with construction scheduled for early 1981. This Gulf-operated plant, in which the company will have about a 30 per cent interest, will bring the Robb-Hanlan natural gas fields on stream by late 1982.

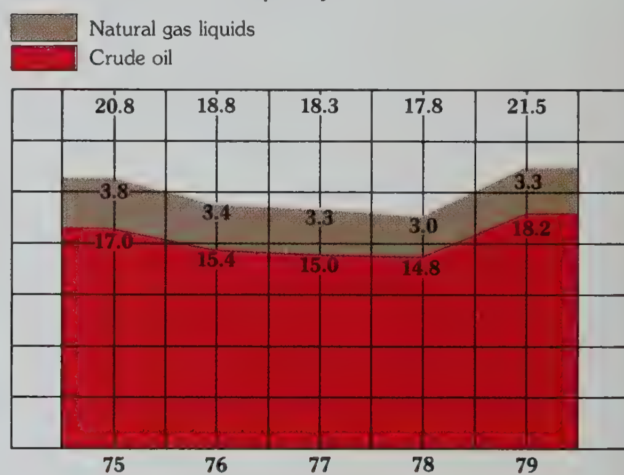
*Reserves*

Production drilling was up over 1978, with 49 net development wells (including development outpost wells) being drilled. Of these, 17 were designated as oil and 17 as gas, with both oil and gas being found in some wells.

**Gross natural gas produced and sold**
Millions of cubic metres per day




**Gross crude oil and natural gas liquids produced**
Thousands of cubic metres per day




Although crude oil production increased, the decline in proved remaining reserves of crude oil and natural gas liquids from 61.4 million cubic metres (386 million barrels) to 58.2 million cubic metres (366 million barrels) was less than the 1978 decrease. The major portion of proved reserve additions came from upward revisions of older established pools. There were a number of extensions and discoveries that require further evaluation before being added to reserves.

Proved remaining reserves of natural gas declined during 1979 from 76.1 billion cubic metres (2.7 trillion cubic feet) to 70.4 billion cubic metres (2.5 trillion cubic feet) because of continuing depletion of older reservoirs. Significant

*An oil discovery on the Blood Indian Reserve west of Lethbridge, Alberta, was on stream by year-end.*

**Estimated Remaining Proved Reserves**

| | Gross (1) 1979 | Gross (1) 1978 | Net (2) 1979 | Net (2) 1978 |
|---|---|---|---|---|
| **Conventional Reserves Western Canada** | | | | |
| Crude oil and natural gas liquids (3)(millions of cubic metres) | 58.2 | 61.4 | 38.6 | 40.7 |
| Natural gas (4) (billions of cubic metres) | 70.4 | 76.1 | 50.7 | 59.2 |
| **Other Reserves** | | | | |
| Syncrude (5) (millions of cubic metres) | 23.8 | 30.2 | | |
| Sulphur (millions of tonnes) | 4.8 | 5.4 | 3.9 | 4.4 |

1. Gross reserves are before deducting royalties. The proved reserve estimates include only those volumes which appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions.

2. Government royalty rates can vary depending on prices, production volumes, the timing of initial production and changes in legislation. Net reserves have been calculated on the basis of the royalty rates experienced in late 1979.

3. Crude oil reserves in the frontier areas have not been included as there has been insufficient drilling to determine if the reserves are of commercial size.

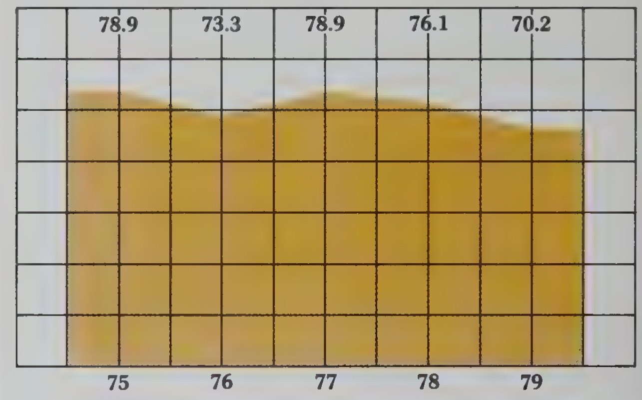
4. Natural gas reserves in the frontier areas are not included as their recovery depends on approval and construction of a pipeline to transport the gas to markets. Gulf Canada's share of gross proved reserves in the Parsons Lake area of the Mackenzie Delta is estimated to be approximately 36.6 billion cubic metres.

5. Synthetic crude oil reserves resulting from Gulf Canada's interest in the Syncrude project are shown in gross volumes only. The Alberta government's share from the Syncrude project is 50 per cent of net profits, as defined in an agreement between the project participants and the government, with an option to convert to a 7.5 per cent gross royalty. On either basis, the Alberta government has the right to take its share in kind. These reserves will be extracted by mining and processing oil sands.

During 1979 Alberta Energy Company exercised its option to obtain a 20 per cent working interest in Syncrude. This reduced Gulf Canada's interest to 13.4 per cent which accounts for approximately 95 per cent of the reduction in remaining synthetic crude oil reserves in 1979. Production during 1979 accounts for the remainder of the reduction.

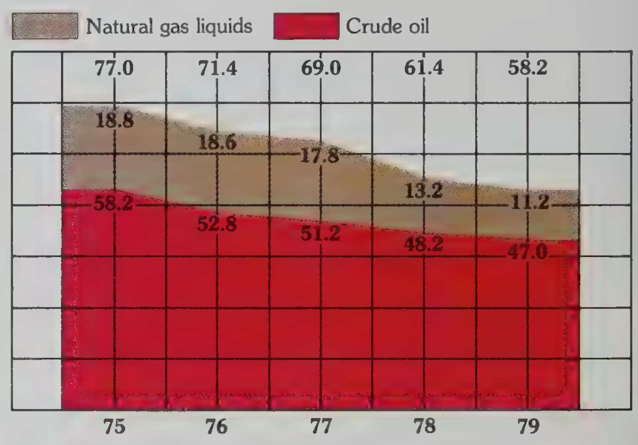
**Estimated gross reserves Western Canada natural gas**

Billions of cubic metres




**Estimated gross reserves conventional crude oil and natural gas liquids**

Millions of cubic metres




discoveries from 1979 and previous years, when fully delineated and evaluated, should increase proved reserves in the future.

Frontier reserves such as Parsons Lake, Whitefish, Kopanoar and Hibernia have not been included as proved reserves because transportation systems to bring these resources to market are not yet in place. The portion of these reserves that will be proved in the future have been included in Established Reserves, a category adopted by organizations such as the Canadian Petroleum Association, the National Energy Board and the Alberta Energy Resources Conservation Board.

This category was developed in 1978 by a joint task force on uniform reserves terminology under the auspices of the Interprovincial Advisory Committee on Energy which reports to the Council of Energy Ministers. It takes into account not only probable transportation sys-

*A sulphur prilling facility, which was nearing completion at the Strachan, Alberta, gas plant at year-end, produces environmentally safe beads of hard sulphur for sale to overseas and domestic markets.*

tems, but also additional drilling which, with reasonable certainty, will prove additional reserves in western Canada and frontier areas.

Gulf Canada Resources' established reserves of crude oil and natural gas liquids are 32.8 million cubic metres (206 million barrels) more than proved reserves; and in the case of natural gas are 76.1 billion cubic metres (2.7 trillion cubic feet) higher.

*Sulphur*

Net production declined from 266,000 tonnes (261,000 long tons) in 1978 to 220,000 tonnes (217,000 long tons) in 1979, a reduction of 17 per cent. A sulphur prilling tower — North America's first — at the Strachan gas plant was near completion at year-end. The tower will produce premium quality sulphur prills for export.

*Mineable Oil Sands*

Production of synthetic crude oil from the Syncrude project averaged 7,900 cubic metres (49,500 barrels) per day during 1979 as compared to approximately 3,200 cubic metres (20,000 barrels) per day for the last six months of 1978. Although production rates were limited early in the year by extremely cold weather, remedial measures reduced the impact of winter conditions on mine output. Production restrictions over the remainder of the year were primarily a result of being unable to sustain two-train operation in the upgrading section of

the plant. Rates average 13,400 cubic metres (84,000 barrels) per day for July and August when two-train operation was attained.

Although Syncrude showed a loss for 1979, improved production levels and synthetic crude pricing should contribute to profitable operations in 1980. GCRI's interest in Syncrude was reduced to 13.4 per cent in 1979 when the Alberta Energy Company Ltd. exercised an option to acquire a 20 per cent interest.

During 1978 GCRI entered into a joint venture agreement with eight other companies forming the Alsands Project Group. This venture, in which GCRI has an eight per cent interest, received Energy Resources Conservation Board approval in December to construct and operate a Syncrude-type mining project to produce 22,000 cubic metres (140,000 barrels) per day of synthetic crude. Project construction, scheduled for completion by 1986, requires Alberta and federal government approval.

In addition, the company farmed into a 15,000 hectare (37,000 acre) mineable oil sands lease north of Fort McMurray, Bituminous Sands Lease No. 30, and can earn up to an 83.75 per cent interest by spending $42 million for exploratory work. Completion of exploration and feasibility studies could result in an application to the Alberta Energy Resources Conservation Board for a development permit in 1985 and a decision in late 1986 to begin building a mining and processing plant.

*In-situ Oil Sands*

GCRI completed its in-situ heavy oil experiments at Cold Lake and is continuing with the fire flood experiment at Wabasca. New experimental field programs are planned for the company's Pelican Lake properties at the south end of the Wabasca deposit, and at Surmont which is located near the south end of the Athabasca deposit. Construction of an experimental pilot project at Pelican will begin in 1980 with start-up scheduled for 1982. Experiments on the Surmont property undertaken in conjunction with the Alberta Oil Sands Technology and Research Authority will examine a new approach to oil sands recovery involving the construction of horizontal wells.

*Coal*

On the Belcourt joint venture which is being undertaken in conjunction with Denison Mines

Limited, field exploration has confirmed the presence of substantial resources of high quality metallurgical coal and a feasibility study is now being prepared.

The company has also been active in coal exploration in northern British Columbia and Alberta where significant blocks of coal licences and leases have been acquired. Work was discontinued on the Mount Head area project in southwestern Alberta.

*Minerals*

Gulf Canada Limited continued to benefit from its 5.1 per cent interest in the Rabbit Lake uranium mine in Saskatchewan, and to share an interest of up to 50 per cent in exploration activities undertaken through a joint venture with Gulf Minerals Canada Limited.

During geological exploration a worker trenches a coal seam on one of Gulf Canada's northern British Columbia properties.

Capable of magnifying up to 200,000 times, this electron microscope in the geological lab at Gulf Canada Square enables technicians Rick Davies and Ania Kamienska to describe and interpret the porosity of reservoir rock.

# Refined products and chemicals

The formation of Gulf Canada Products Company (GCPC) on July 1, 1979, brought together into one operating company all downstream segments of Gulf Canada — Refining, Marketing, Supply and Distribution, Chemicals and Propane. The purpose of this company is to co-ordinate more effectively the operations of all departments in the refined products segment and to develop Gulf Canada's strategic position in future markets for hydrocarbons and related businesses.

The refined products segment in 1979 was dominated by the world-wide shortage of supply which followed the political crisis in Iran. Crude oil prices were raised significantly by OPEC nations and volumes were restricted. The effect on eastern Canada, which relies on imported crude for much of its requirements, was to remove the surplus product which had depressed prices in this area to marginal levels for the past several years.

Product prices and profitability improved, although some difficulty was experienced in securing adequate supplies of crude oil to meet Canadian demands which grew by more than four per cent. This growth rate in the use of petroleum products is among the highest in the world and is counter to the federal government's goals of conservation and energy self-sufficiency which Gulf Canada strongly supports.

| **Crude Processing Capacity** | Cubic metres per calendar day |
|---|---|
| Point Tupper, Nova Scotia | 12,900 |
| Montreal East, Quebec | 12,300 |
| Clarkson, Ontario | 12,600 |
| Moose Jaw, Saskatchewan* | 2,100 |
| Calgary, Alberta* | 1,400 |
| Edmonton, Alberta | 12,700 |
| Kamloops, British Columbia | 1,500 |
| Port Moody, British Columbia | 5,900 |
| Total | 61,400 |

*Asphalt plants

**Manufacturing**

Eighty-three per cent of total refinery capacity was utilized in 1979, five per cent more than the previous year. In western Canada, plants ran at capacity due to high demands, while in central and eastern Canada throughput was at about 75 per cent due to limitations of crude supply.

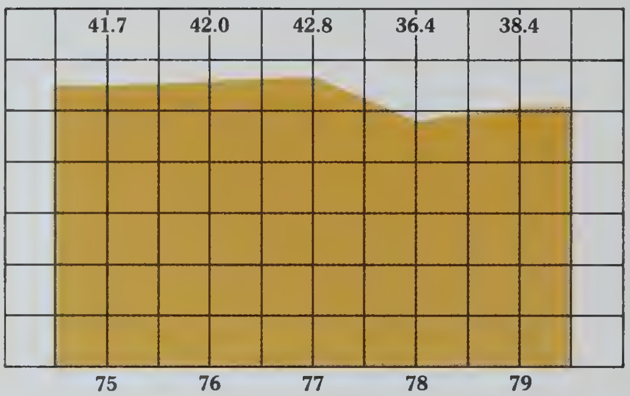
A significant energy conservation program has been practiced in Manufacturing since 1976. Last year an equivalent of approximately 32,000 cubic metres (200,000 barrels) of crude oil was saved, primarily through improved operating practices.

*Energy-saving programs in manufacturing plants are reducing fuel costs an average of 13 per cent. Edmonton refinery recorded a 23 per cent saving in 1979.*

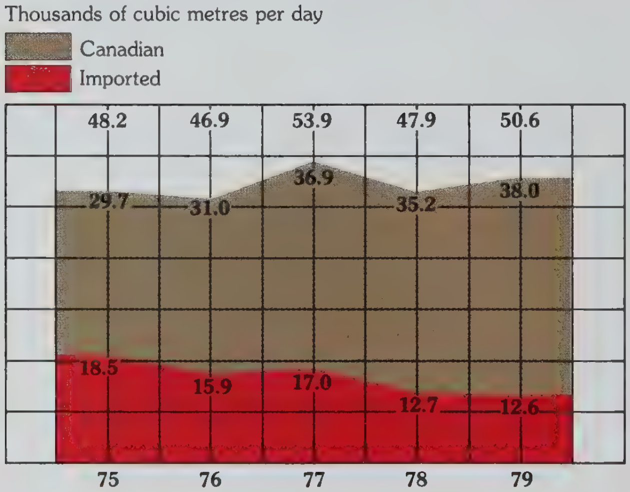

*Last spring Super Unleaded gasoline, especially formulated for new model cars, was added to the product line.*

The chemicals units operated at near capacity throughout the year with ethylene production at a record 191,000 metric tons (422 million pounds), and cyclohexane production at 136,000 cubic metres (30 million gallons). At the Shawinigan plant, a calcium carbide furnace was modernized to 1980 standards.

**Crude oil and petroleum products transported**
Millions of cubic metres




**Crude oil processed by and for the Corporation**
Thousands of cubic metres per day




The olefins operation at Varennes reduced production costs through a conservation program particularly related to boiler and turbine improvements. At Shawinigan, the modernized furnace increased internal consumption of carbon monoxide and reduced the requirement of coal in the calcining of limestone.

**Marketing**
Demand for petroleum products showed particular growth in motor gasoline and diesel fuel markets. Heating fuel volume continued to decline as the trend to natural gas and electricity continued.

In 1978 Gulf Canada opted to forego business not yielding a reasonable return, but these volumes were recovered in 1979 as light oil sales increased by four per cent in a market where higher prices prevailed.

Marketing continued to respond to the conservation ethic of the '70s by continuing a series of nationally advertised "car care" programs emphasizing that a well-maintained vehicle operates 24 per cent more efficiently.

Early in 1979 the new lubricating oil plant at Clarkson refinery came on stream and introduced to the marketplace HydroTreated (HT) lubricants reformulated to meet latest industry standards. Subsequently, Gulf Canada introduced a new Super Premium Motor Oil, using the unique quality HT product designed for the fuel-efficient autos of the '80s.

Gulf Canada's program to consolidate service station facilities continued and, over the past five years, the number was reduced from 4,700 to 2,900. Marginal low-volume stations have been replaced by strategically located high-volume facilities and, as a result, the company has been able to establish a network which sells more gasoline through fewer outlets.

Conversion to metric measurement began on January 1, 1979. Preliminary work prior to that date effected a smooth transition and a minimum of confusion for dealers and customers.


*Petromont Inc., a new chemical consortium formed in 1979, will include the assets of Gulf Canada's Varennes facility.*

### Supply and distribution
During 1979 some OPEC members more than doubled crude oil prices. The Iranian situation reduced world crude supply and contributed to spot cargos selling for up to $94 per cubic metre ($15 per barrel) above official levels. Because of the extremely tight supply late in 1979, GCPC purchased 160,000 cubic metres (one million barrels) of product at prices substantially higher than the prices at which it could be sold to ensure continuity of supply.

The rise in Canadian crude of $1.00 per barrel scheduled for January 1, 1979, was deferred and implemented on July 1.

The Toronto distribution terminal, site of Gulf Canada's first refinery, was sold as part of an effort to control distribution costs.

### Chemicals sales
Earnings were well ahead of 1978 and reflected the strong demand and firm prices for all products.

Chemicals plants operated and sold at capacity with the exception of the Varennes olefin unit. Although this facility operated above its previous level, it was restricted by feedstock shortages early in the year due to a fire at the Montreal East refinery.

The basis for the formation of a chemical consortium in Quebec was finalized with the signing of letters of intent to combine the assets of GCPC's Varennes ethylene plant and Union Carbide's Montreal East ethylene facilities. The assets will be held and operated by a new company, Petromont Inc., to be owned equally by Gulf Canada, Union Carbide Canada and the investment arm of the Quebec government, Société générale de financement. Operation of the facilities by the consortium is expected to commence in 1980.

Based on the new capacity of Shawinigan's rebuilt furnace, steps are being taken to provide a calcium carbide-based steel desulphurizing reagent to the steel industry.

Commercial Alcohols, a producer of ethanol acquired as a wholly-owned subsidiary from Canadian International Paper at the beginning of 1979, operated at near capacity.

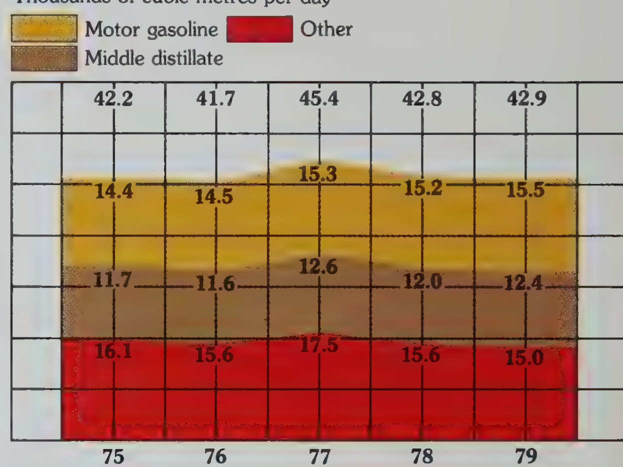
### Superior Propane
This wholly-owned affiliate maintained its position in the marketplace in 1979. In face of energy conservation patterns throughout the heating sector of the industry, the company improved profits and volumes.

A continuing trend toward summer outdoor living and recreation contributed to sales.

During the year a maintenance program for propane furnaces was introduced. Developed to emphasize the importance of fuel conservation, the program continues to keep customers informed of energy-saving methods.

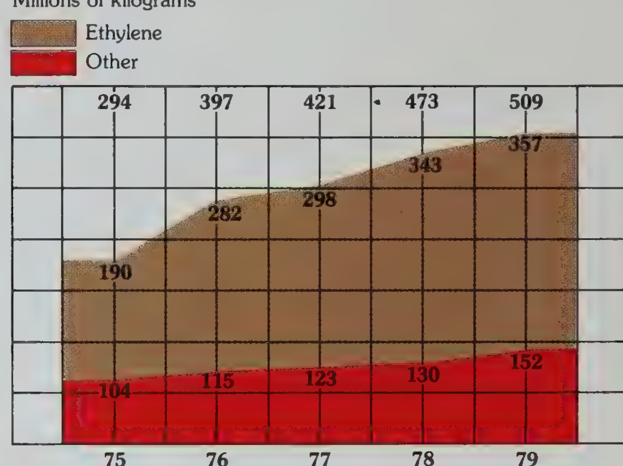
**Petroleum products sold**

Thousands of cubic metres per day




**Petrochemical sales**

Millions of kilograms




*Richmond Hill, Ontario, lessee Jerry Vine tells customer advantages of using new Hydro-Treated Super Premium Motor Oil.*

# Other activities

## Research and development

An active participant in the Corporation's environmental conservation programs, the Research and Development Department conducted air, water, and noise surveys at refineries and chemical plants to evaluate the effectiveness of abatement programs. Of particular interest was the installation of a sulphur dioxide monitoring network for air quality management at Kamloops refinery, and pilot plant studies for water treatment at Clarkson and Montreal East refineries.

In response to the need for high octane gasoline without the use of lead, Gulf Canada has developed low-cost processes to make high octane gasoline blending components. Patents for these "oxygasoline" formulae have been allowed in the United States with applications pending in Canada and other countries.

Efforts were expanded to develop technology in support of new resource developments. A pilot plant capable of modelling heavy oil recovery processes is now operational and expanded facilities for enhanced oil recovery procedures are being used in support of field projects initiated by Gulf Canada Resources.

Research personnel took part in the construction of demonstration sulphur-asphalt highways in Ontario, Florida, Minnesota, Michigan and Saudi Arabia. Commercialization of sulphur-asphalt technology seems imminent.

## Environmental affairs

Gulf Canada's policy requiring an environmental impact assessment on all new projects helps ensure that conservation is of major concern in management decisions. Capital expenditures were $17 million in 1979.

A growing trend during the year was the recognized need by governments for examining the economic effects on industry, and on society, of environmental regulations. The Economic Council of Canada is carrying out a major study on regulatory reform, and the Treasury Board's requirement for a socio-economic impact assessment on all new environmental rules may produce a refreshing change in regulatory philosophy. Gulf Canada has been actively involved in these activities.

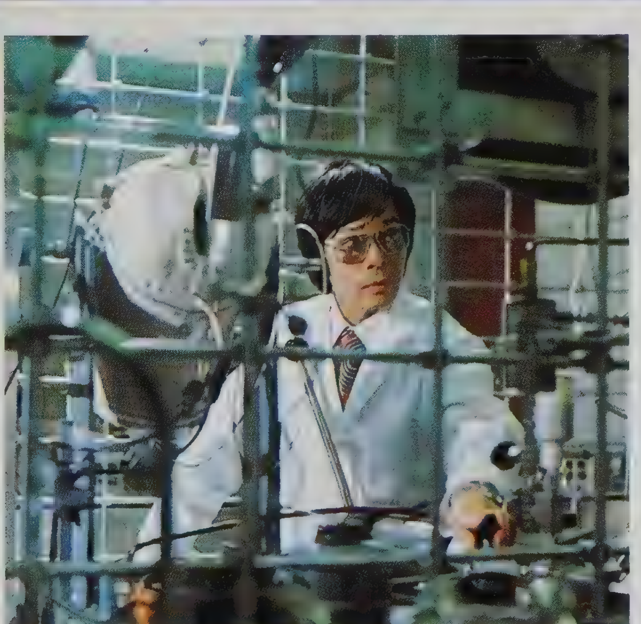
The Corporation has also taken a leading role in industry reaction to environmental legislation at provincial and municipal levels. Gulf Canada's position is to resist legislation and regulation which, although designed for conservation, result in disproportionate economic waste.

## Realty

Gulf Canada Square — a 20-storey office tower in downtown Calgary — was officially opened on December 6, 1979, by the Honorable Merv Leitch, Alberta Minister of Energy and Natural Resources. The energy-efficient building is the new home for over 1,600 Calgary employees who were previously located in a number of locations. Approximately 40 per cent of the building is leased by others.

After 30 years at 800 Bay Street, Toronto, the head office of Gulf Canada Limited is being relocated at 130 Adelaide Street West. Gulf Canada Products Company will continue to occupy the Bay Street premises.

Major portion of expenditures for environmental conservation was directed to Gulf Canada Resources. A crew with electrofishing equipment collects and types fish near proposed Pelican Lake in-situ project in north-central Alberta.



Research efforts contributed to improved heavy oil recovery methods. Here, Joe Isojima works on a test at Sheridan Park.

## Human resources

Emphasis was directed to determining the management capabilities required for the years ahead. A new middle management program was launched which addresses the need for more general management capabilities in the Corporation's future senior managers. A significant highlight was the inclusion of spouses of the candidates in a three-day program which acknowledges the effect on the home environment that can result from a manager's job demands.

The final labor agreement for 1979 was signed late in the year. Two-year contracts provided increases of 8.5 per cent in 1979 and 7.5 per cent in 1980, but subsequent industry settlements resulted in Gulf Canada raising these wage adjustments to 10.5 per cent. Salaried employees were granted adjustments of seven per cent as of January 1, 1979, and eleven per cent for 1980, effective December 1, 1979.

A Corporation-paid dental plan was introduced for employees, effective January 1, 1979, and extended to pensioners and disabled employees as of January 1, 1980. Also initiated was an improved early retirement program. The upgraded plan permits retirement at age 60 without discount and retirement earlier than age 60 with a five per cent per year discount if age plus years of service total at least 75, plus an optional joint spouse pension. To assist employees in adjusting to retirement, a pilot program of pre-retirement counselling is now in progress.

In the field of safety, employees at 19 locations received the President's Safety Award as a result of no lost-time incident records. Of special note is the achievement of employees in Gulf Canada Resources Inc. who worked over 3.8 million man-hours before a significant accident occurred on the job, an unprecedented record for a major Canadian oil and gas producer.

## Public affairs

Gulf Canada's communications program continued to stress the importance of conservation and forward-looking energy policies. Dialogue with governments, media and key interest groups was directed to a wide range of issues, particularly the question of Canada's self-sufficiency which the Corporation's management team took every opportunity to address publicly and privately. Printed and audio-visual messages to employees, dealers and shareholders were used effectively to explain and elaborate on current industry issues.

*On lawn of Port Moody refinery, employees receive award for their accident-free safety record.*

Corporate financial support to educational, health, cultural, youth, community and public interest organizations in 1979 totalled more than $1.7 million. Employee contributions to United Way campaigns across Canada reached record objectives.

Gulf Canada has traditionally encouraged its employees to participate in community organizations as volunteers. Last year, as further practical support, a special budget for community services was initiated to provide funds for projects in which employees are involved.

As a tribute to The Year of the Child, the Corporation was a major supporter of the Canadian Children's Opera Chorus. Its aid to the handicapped included a gift of a unique machine to the Canadian National Institute for the Blind which will "read" books and other printed material not yet available in braille.

To foster better understanding among Canadians, Gulf Canada again conducted a cultural program for the children of employees, in which French and English-speaking children travelled across Canada to exchange visits.

The francization program in the Province of Quebec continued to gain momentum and virtually all management positions at Gulf Canada's Montreal headquarters are now held by bilingual personnel.

*Children of employees across Canada participated in a cultural exchange program in which English and French-speaking students visited each other for ten days. Lyle Berreth, Scott Thompson and Eric Parks enjoy themselves in Calgary.*

# Consolidated statement of financial position

December 31, 1979

## Assets

| | | 1979 | 1978 |
|---|---|---|---|
| | | (millions of dollars) | |
| **Current:** | | | |
| Cash and term deposits | | $ 52 | $ 19 |
| Marketable securities, at cost (approximates market value) | | 248 | 134 |
| Accounts receivable | | 697 | 528 |
| Inventories of crude oil, products and merchandise | | 543 | 393 |
| Materials, supplies and prepaid expenses | | 52 | 39 |
| Investment in Amalgamated Bonanza (note 3) | $141 | | |
| Deduct Gulf Canada shares received and cancelled on sale (notes 3 and 9) | 139 | 2 | |
| Total current assets | | 1,594 | 1,113 |
| **Investments, long-term receivables and other assets** (note 4) | | 87 | 81 |
| **Property, plant and equipment, at cost** less accumulated depreciation, depletion and amortization (note 5) | | 1,607 | 1,567 |
| | | $3,288 | $2,761 |

On behalf of the Board:

A. Powis, Director

J.L. Stoik, Director

*(See accompanying notes to consolidated financial statements)*

## Liabilities and shareholders' equity

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| **Current:** | | |
| Short-term loans | $ 23 | $ 30 |
| Accounts payable and accrued liabilities (notes 6 and 7) | 704 | 491 |
| Income and other taxes payable | 173 | 67 |
| Current portion of long-term liabilities | 15 | 34 |
| Dividends payable | 18 | 13 |
| Total current liabilities | 933 | 635 |
| **Long-term liabilities** (note 8) | 333 | 350 |
| **Deferred income taxes** | 383 | 357 |
| **Shareholders' equity:** | | |
| Capital stock (notes 3 and 9) | 405 | 281 |
| Retained earnings (note 9) | 1,234 | 1,138 |
| Total shareholders' equity | 1,639 | 1,419 |
| | $3,288 | $2,761 |

# Auditor's Report

To the Shareholders of
Gulf Canada Limited:

We have examined the consolidated statement of financial position of Gulf Canada Limited as at December 31, 1979 and the consolidated statements of earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting practice referred to in note 2, on a basis consistent with that of the preceding year.

Toronto, Canada,
February 8, 1980.

Clarkson Gordon
Chartered Accountants

# Consolidated statements of earnings

Year ended December 31, 1979

## Earnings

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| **Revenues:** | | |
| Gross sales and other operating revenues | $5,384 | $4,665 |
| Deduct — | | |
| Crude oil sales (note 1) | (2,077) | (1,797) |
| Taxes collected for governments | (300) | (317) |
| Net sales and other operating revenues | 3,007 | 2,551 |
| Investment and sundry income | 51 | 33 |
| Net revenues | 3,058 | 2,584 |
| **Expenses:** | | |
| Purchased crude oil, products and merchandise (note 1) | 1,406 | 1,328 |
| Operating expenses | 372 | 266 |
| Exploration, dry hole and other frontier area expenditures | 166 | 115 |
| Selling and administrative expenses | 355 | 328 |
| Taxes other than taxes on income | 190 | 140 |
| Income taxes (note 11) | 147 | 105 |
| Depreciation, depletion and amortization (note 12) | 123 | 89 |
| Interest on long-term liabilities | 25 | 26 |
| | 2,784 | 2,397 |
| Earnings for the year before Syncrude gain | 274 | 187 |
| Gain on sale of portion of Syncrude interest (note 13) | 14 | |
| Earnings for the year | $ 288 | $ 187 |
| Earnings per share before Syncrude gain | $ 6.02 | $ 4.11 |
| Earnings per share | $ 6.33 | $ 4.11 |

## Retained earnings

| | 1979 | 1978 |
|---|---|---|
| Balance, beginning of the year (note 2) | $1,138 | $1,003 |
| Add earnings for the year | 288 | 187 |
| | 1,426 | 1,190 |
| Deduct — dividends | 68 | 52 |
| — excess of consideration applicable to shares received and cancelled over their average paid in value (note 9) | 124 | |
| Balance, end of the year | $1,234 | $1,138 |

*(See accompanying notes to consolidated financial statements)*

# Consolidated statement of changes in financial position

## Year ended December 31, 1979

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| **Source of funds:** | | |
| From operations* | $410 | $349 |
| Add exploration expenditures | 166 | 115 |
| From operations before exploration expenditures | 576 | 464 |
| Sales of properties | 21 | 17 |
| Sale of portion of Syncrude interest | 91 | |
| Long-term obligations | 2 | 34 |
| Sales of investments | | 4 |
| | 690 | 519 |
| **Use of funds:** | | |
| Capital expenditures — | | |
| Additions to property, plant and equipment | 244 | 370 |
| Exploration expenditures | 166 | 115 |
| Total capital expenditures | 410 | 485 |
| Reduction in long-term liabilities | 18 | 37 |
| Dividends | 68 | 52 |
| Advance funding of pensions (note 14) | 10 | |
| Other (net) | 1 | 2 |
| | 507 | 576 |
| Increase (decrease) in working capital | $183 | $ (57) |
| **Working capital changes:** | | |
| Increase (decrease) in current assets — | | |
| Cash and marketable securities | $147 | $ (21) |
| Accounts receivable | 169 | 8 |
| Inventories and materials | 163 | (74) |
| Investment in Amalgamated Bonanza | 2 | |
| | 481 | (87) |
| Increase (decrease) in current liabilities — | | |
| Accounts payable and other | 211 | (38) |
| Income and other taxes payable | 106 | 2 |
| Current portion of long-term liabilities | (19) | 6 |
| | 298 | (30) |
| Increase (decrease) in working capital | 183 | (57) |
| Working capital, beginning of the year | 478 | 535 |
| Working capital, end of the year | $661 | $478 |

*Earnings for the year adjusted for charges or credits not affecting working capital.

*(See accompanying notes to consolidated financial statements)*

# Notes to consolidated financial statements

## Gulf Canada Limited
## December 31, 1979

**1. Accounting policies**
The financial statements of the corporation have been prepared by management in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of numerous estimates and approximations. The more significant of the corporation's accounting policies are summarized below.

*Principles of consolidation —*
The accounts of the corporation and all subsidiary companies are included in the financial statements. Investments in joint venture companies owned 50 per cent or less are accounted for on the equity basis. The corporation's proportionate share of assets and liabilities relating to the Syncrude project are included in the accounts along with its share of production and costs from March 1, 1979.

*Inventories —*
Inventories of crude oil, products and merchandise are valued generally at the lower of cost applied on a "first-in, first-out" basis or market value determined on the basis of replacement cost or net realizable value.

*Oil and gas properties —*
The initial acquisition costs of oil and gas properties together with the costs of drilling and equipping development and successful exploratory wells (other than wells in frontier areas) are capitalized.

Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage, exploratory dry hole costs and all expenditures (including the cost of discovery wells) in frontier areas where future production is not reasonably assured, are charged to expense.

*Depreciation, depletion and amortization —*
Capitalized costs of unproved oil and gas properties are charged against earnings to the extent the values of such properties are considered impaired based on past experience.

Capitalized costs with respect to proved oil and gas properties are amortized against earnings on the unit-of-production method for each field using estimated recoverable oil and gas reserves. Charges are made against earnings for depreciation of investment in plant and equipment based on the estimated remaining useful lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate. No charges are made against earnings for the capitalized costs of certain heavy oil and coal properties pending development.

*Capital leases —*
In accordance with the recommendation of the Canadian Institute of Chartered Accountants, the corporation adopted in 1979 the policy that leases which transfer substantially all the benefits and risks of ownership of the leased assets are capitalized by recording the present value of payments expected to be made under the leases as assets and liabilities, when significant. Capitalized leased assets are amortized over their estimated useful lives on a basis consistent with owned assets and lease payments are reflected as a reduction of the liability and as interest expense. Such leases existing at December 31, 1979, were not significant in relation to net assets and accordingly were not capitalized.

*Syncrude preproduction costs —*
Prior to March 1, 1979, the corporation's share of all costs, net of revenues received, was capitalized and included with its share of the costs of the Syncrude plant and equipment. Effective this date these capitalized preproduction costs are being amortized on a unit-of-production basis related to the corporation's share of the production and estimated recoverable reserves.

*U.S. dollar liabilities —*
Liabilities in U.S. dollars are translated to Canadian dollars at year-end rates of exchange. Gains or losses arising on translation of short-term liabilities are included in earnings. Unrealized gains or losses arising on translation of long-term liabilities are deferred and amortized over the remaining term of the liabilities.

*Income taxes —*
Income tax expense is computed on the basis of revenues and expenses reflected in the statement of earnings. A portion of such taxes is not currently payable as tax legislation permits the deduction of certain costs and allowances prior to the time they are recorded as expenses for financial statement purposes. The amount not currently payable is included in the statement of financial position as deferred income taxes.

Investment tax credits are applied to reduce the cost of the related fixed assets.

*Pensions —*
Pension benefit costs are determined annually by independent actuaries. The costs related to the current service of employees are charged annually to earnings in the year incurred. Costs resulting from amendments or upgrading of the plans, and which relate to service of employees in prior years, are amortized over the estimated remaining years of service of the employees involved.

*Crude oil transactions —*
In addition to its own net production, the corporation purchases large volumes of crude oil from other producers and sells crude oil not required for its own refineries. Such crude oil sales are offset against crude oil purchases and excluded from both net revenues and costs.

*Oil import compensation program* —
Under the oil import compensation program the federal government compensates eligible importers with respect to petroleum imported for consumption in Canada, provided the importing company voluntarily maintains prices for products obtained from imported petroleum at the level suggested by the government. The federal government also compensates purchasers of synthetic crude oil produced from tar sands plants. Compensation received or recoverable under this program is reflected as a reduction of the cost of purchased crude oil.

**2. Change in accounting practice**
The corporation, which accounts for its exploration and production activities on the successful efforts method, revised certain of its practices in 1979 to conform to a uniform successful efforts method adopted by other major integrated oil companies. The revisions related to the capitalization of development dry hole expenses, changes in the timing of the write-off of unsuccessful exploratory drilling, and changes in the methods of amortizing capitalized costs and in the method of providing impairment reserves for unproved properties. This change in accounting practice increased earnings for 1979 by $8 million and was applied retroactively decreasing retained earnings at December 31, 1977 by $4 million and increasing 1978 earnings by $4 million.

**3. Investment in Amalgamated Bonanza**
On October 18, 1979, the corporation entered into an agreement to acquire for sale to Gulf Oil Corporation all the outstanding shares of Amalgamated Bonanza Petroleum Ltd. (Amalgamated Bonanza). The shareholders of Amalgamated Bonanza had the option, up to January 11, 1980, of exchanging their shares for Gulf Canada common shares on the basis of one Gulf share for each 2.82 shares held or $30 in cash. This transaction resulted in the issuance of 1,647,638 Gulf Canada shares for an aggregate value of $139 million and payment of $2 million in cash.

Coincident with the acquisition, under a Letter Agreement dated October 18, 1979, as amended on October 26, 1979 and January 11, 1980, the corporation agreed to sell Amalgamated Bonanza to Transocean Gulf Oil Company (Transocean), a subsidiary of Gulf Oil Corporation. Under these Letter Agreements Gulf Canada had the option to elect settlement with Transocean either in cash, or in common shares of Gulf Canada held by Transocean, or any combination thereof. Also, Transocean agreed to reimburse Gulf Canada for the total costs incurred by Gulf Canada in this connection and to indemnify and hold Gulf Canada harmless against any losses, claims, damages or liabilities to which it may become subject as a result of the transaction. The agreement with Transocean further called for that company to pay Gulf Canada an amount of $5 million on closing of the transaction in 1980.

The corporation elected to receive in settlement 1,647,638 of its common shares and cash of $2 million, the equivalent of the consideration paid to the former shareholders of Amalgamated Bonanza. These common shares will be cancelled with effect from January 11, 1980, with the result that the beneficial interest of Gulf Oil Corporation in the shares of Gulf Canada will be reduced from 68.25% to 64.63%.

These financial statements give effect as of December 31, 1979, to the acquisition and subsequent sale of Amalgamated Bonanza including the receipt and cancellation of the corporation's shares (see note 9).

**4. Investments, long-term receivables and other assets**

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| Investments in associated and other companies: | | |
| At cost: | | |
| With quoted market value (based on closing prices at end of each year) 1979 — $43 million; 1978 — $35 million | $ 3 | $ 3 |
| At equity: | | |
| Investment in joint venture companies, at cost plus equity in undistributed earnings | 15 | 15 |
| | 18 | 18 |
| Long-term receivables, deferred charges and other assets | 69 | 63 |
| | $87 | $81 |

## 5. Property, plant and equipment

| | Range of depreciation rates | Gross investment at cost (1) | Accumulated depreciation, depletion and amortization | Net investment 1979 | Net investment 1978 |
|---|---|---|---|---|---|
| | | (millions of dollars) | | | |
| Exploration and production | (2) | $ 872 | $ 386 | $ 486 | $ 416 |
| Syncrude project | (2) | 295 | 8 | 287 | 360 |
| In-situ oil sands and coal | (3) | 85 | 10 | 75 | 69 |
| Transportation | 4% to 10% | 56 | 27 | 29 | 31 |
| Refining and petrochemicals | (4) | 834 | 407 | 427 | 452 |
| Marketing | 2.5% to 10% | 366 | 159 | 207 | 209 |
| Other | 2.5% to 10% | 112 | 16 | 96 | 30 |
| | | $2,620 | $1,013 | $1,607 | $1,567 |

(1) Additions during the year have been reduced by investment tax credits of $5 million ($8 million in 1978).
(2) Unit of production.
(3) No charges are made against earnings for the acquisition costs of these properties pending development; cost of equipment used in research and testing activities on these properties is depreciated over the life of the related activities.
(4) Processing units on unit of production, other items from 2.5% to 10%.

## 6. Affiliated companies

Included in accounts payable and accrued liabilities are amounts owing to and from affiliated companies, all of which arose in the normal course of business, of $107 million and $7 million, respectively, at December 31, 1979, ($20 million and $4 million, respectively, at December 31, 1978).

The corporation has transactions with Gulf Oil Corporation and its affiliates for the purchase and sale of crude oil, refined products and petrochemicals; the receipt of technical and engineering services under research agreements; and hiring ocean tank vessels. The aggregate net amount paid or payable by the corporation in this connection, principally covering crude oil purchases for 1979 was $515 million and for 1978, $258 million.

## 7. Deferred revenue

Included in accounts payable and accrued liabilities are payments of $37 million received up to December 31, 1979, ($13 million to December 31, 1978) under "take or pay" gas contracts. These amounts have been deferred and will be included in revenue when the gas is delivered at the option of the purchaser.

## 8. Long-term liabilities

| | Maturity | 1979 | 1978 |
|---|---|---|---|
| | | (millions of dollars) | |
| Debentures and notes (1): | | | |
| $5\frac{3}{4}$%, Series B | 1982 | $ 2 | $ 3 |
| $5\frac{1}{4}$%, Series C (2) | 1982 | 6 | 8 |
| $7\frac{3}{8}$%, Series E | 1988 | 30 | 31 |
| $8\frac{1}{2}$% | 1989 | 3 | 4 |
| $8\frac{1}{2}$% | 1990 | 3 | 3 |
| $8\frac{1}{8}$% loan re Syncrude (3) | 1994 | 119 | 117 |
| $8\frac{3}{8}$% (2) | 1997 | 146 | 148 |
| Interest-free loans | | | 27 |
| Other long-term obligations | varying dates | 39 | 43 |
| | | 348 | 384 |
| Less instalments due within one year included in current liabilities | | 15 | 34 |
| | | $333 | $350 |

(1) All debenture issues require sinking fund payments.
(2) Payable in U.S. dollars. Amounts outstanding in U.S. dollars:

| | | 1979 | 1978 |
|---|---|---|---|
| | | (millions of dollars) | |
| $5\frac{1}{4}$%, Series C .. | 1982 | $ 5 | $ 7 |
| $8\frac{3}{8}$%, notes .... | 1997 | 125 | 125 |

(3) The $8\frac{1}{8}$% loan from the Government of Alberta, which includes capitalized interest of $19 million, is evidenced by a debenture convertible by the holder into a portion of the corporation's equity interest in the Syncrude project (see note 10). To the extent that the loan is converted, a proportionate amount of capitalized interest will be forgiven.
In the event that the conversion option is not exercised, the loan plus capitalized interest is repayable in ten equal annual instalments commencing March 1, 1985.

Approximate annual instalments of long-term debt due in the next five years are (millions of dollars):
1980 — $15; 1981 — $21; 1982 — $8; 1983 — $8; 1984 — $9

## 9. Capital stock

Shares without nominal or par value:

*Authorized* —
Common — unlimited number without nominal or par value;
Preferred — unlimited number without nominal or par value. The preferred shares shall rank in priority to the common shares and may be issued from time to time in series with the designation, rights, restrictions, conditions and limitations of each series in a manner as more particularly set out in the Articles of Continuance.

*Issued* —
Common —

| | Shares | Millions of dollars |
|---|---|---|
| December 31, 1978 | 45,497,406 | $281 |
| Add issued in respect of investment in Amalgamated Bonanza (note 3) | 1,647,638 | 139 |
| Less received and cancelled in respect of sale of investment in Amalgamated Bonanza (note 3) | (1,647,638) | (15)* |
| December 31, 1979 | 45,497,406 | $405 |

*The total consideration in respect of the shares received and cancelled amounted to $139 million; of this amount, $15 million represents the average paid in value of the common shares and has been deducted from capital stock; the balance of $124 million has been deducted from retained earnings at December 31, 1979.

## 10. Syncrude

The corporation is a 13.4% participant in the Syncrude project constructed and operated by Syncrude Canada Ltd. to produce synthetic crude oil from the Athabasca Oil Sands.

Part of the corporation's interest in the project was financed through a $100 million convertible loan from the Government of Alberta. For a period of five years from March 1, 1979 the Government of Alberta can convert all or part of the principal amount into an equity interest in the project based on the relationship of the amount converted to the total project costs. Should this option be exercised to the maximum extent, Gulf Canada's interest could be reduced by approximately 4.5 percentage points.

## 11. Income tax

Total income tax expense was $147 million in 1979 and $105 million in 1978 which represents an effective tax rate of 35 per cent and 36 per cent for 1979 and 1978 respectively on earnings before income taxes. The following schedule shows the main differences between the combined federal and provincial statutory tax rate and these effective rates:

| | 1979 | | 1978 | |
|---|---|---|---|---|
| | (millions of dollars) | | | |
| | Amount | % | Amount | % |
| Provision for income taxes at statutory rates | $202 | 48% | $141 | 48% |
| Add (deduct) the tax effect of: | | | | |
| Inclusion in taxable income of crown royalties and other provincial payments | 113 | 27 | 99 | 34 |
| Resource allowance to partially offset inclusion of crown royalties | (90) | (22) | (74) | (25) |
| Depletion allowance earned by exploration and development expenditures | (42) | (10) | (37) | (13) |
| Frontier exploration allowance earned by frontier drilling expenditures | (22) | (5) | (11) | (4) |
| Inventory allowance to partially offset the effect of inflation | (6) | (1) | (7) | (2) |
| Other | (8) | (2) | (6) | (2) |
| Provision for income taxes reflected in the statement of earnings | $147 | 35% | $105 | 36% |

Income taxes include deferred income taxes of $28 million in 1979 and $71 million in 1978. These deferred income taxes are related primarily to the excess of capital cost allowances claimed for tax purposes over depreciation recorded in the accounts.

## 12. Depreciation, depletion and amortization

Depreciation, depletion and amortization in the statement of earnings consists of:

| | 1979 | 1978 |
|---|---|---|
| | (millions of dollars) | |
| Depreciation of plant and equipment | $ 98 | $74 |
| Depletion and amortization of capitalized costs of oil and gas properties, drilling costs and other intangible assets | 25 | 15 |
| | $123 | $89 |

## 13. Gain on sale of portion of Syncrude interest

On August 30, 1979, the Alberta Energy Company Ltd. exercised its option to acquire 20% of the interest of all of the participants in the Syncrude project. This disposition by the corporation of a 3.35% interest in the Syncrude project resulted in a gain of $14 million after deduction of income taxes of $5 million.

## 14. Pension plans

The corporation has pension plans covering substantially all employees. The contributions by employees, together with those made by the corporation, are deposited with insurance companies and/or trustees according to the terms of the plan. Pensions at retirement are related to remuneration and years of service.

The amounts charged to earnings (including amounts paid to government pension plans and the amortization of prior service costs) were $28 million during 1979 and $20 million during 1978. The unamortized prior service costs at December 31, 1979, were approximately $86 million which consisted of:

| | |
|---|---|
| Amounts not yet funded | $76 |
| Amounts funded and deferred in the accounts | 10 |
| Total unamortized | $86 |

The plans were further amended on January 1, 1980, to provide for increases in retirement benefits which increased the unfunded and unamortized prior service costs by $24 million. The unamortized costs of $110 million will be charged to earnings over periods up to twelve years. The unfunded amounts of $100 million, of which approximately $74 million represents the excess of the actuarially computed value of vested benefits over the assets of the plans, will be funded over periods up to twelve years.

## 15. Research and development costs

Research and development costs are charged to earnings as incurred and were $31 million for 1979 and $30 million for 1978.

**16. Commitments and contingent liabilities**
The corporation has commitments in the ordinary course of business (for the acquisition, construction or rental of properties and the purchase of materials and services) and contingent liabilities under various guarantees, all of which, including capital leases, are not significant in relation to net assets.

**17. Formation of petrochemical consortium**
The corporation has entered into a letter of intent with Union Carbide Canada Limited and the Government of Quebec to form a major petrochemical consortium in the Montreal area. Subject to the parties negotiating the necessary agreements, the project will involve the transfer by the corporation of certain assets, consisting primarily of the Varennes plant, for cash and a participating interest in the project.

**18. Segment data**
Business segment data for the corporation is shown in the following table.

This information by segment is shown as though each segment were a separate business activity. Therefore, intersegment transfers of products are eliminated to reflect total corporation net revenues as reported in the Consolidated Statements of Earnings.

The natural resources segment includes exploration, development and production activities related to crude oil, natural gas, natural gas liquids, oil sands and minerals. The refined products and chemicals segment includes the manufacture, distribution and sale of petroleum and chemical products, as well as the business of Superior Propane Limited.

General administration and other common costs have been allocated to each of the segments on an appropriate and consistent basis and income taxes have been calculated in accordance with the legislation applicable to each segment. Interest on long-term liabilities has not been allocated to the business segments and is shown separately net of tax.

## Gulf Canada Limited

December 31, 1979

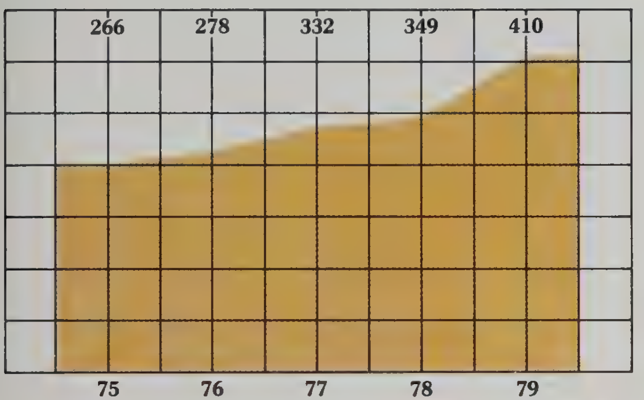
| | Natural resources | | Refined products and chemicals | | Other | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 | 1979 | 1978 |
| | (millions of dollars) | | | | | | | | | |
| Revenues: | | | | | | | | | | |
| Outside the enterprise — | | | | | | | | | | |
| Net sales and other operating revenues | $305 | $250 | $2,650 | $2,259 | $ 52 | $ 42 | | | $3,007 | $2,551 |
| Investment and sundry income | — | — | 8 | 8 | 43 | 25 | | | 51 | 33 |
| Total | 305 | 250 | 2,658 | 2,267 | 95 | 67 | | | 3,058 | 2,584 |
| Intersegment revenues | 551 | 369 | | | | | $(551) | $(369) | | |
| Total revenues | $856 | $619 | $2,658 | $2,267 | $ 95 | $ 67 | $(551) | $(369) | $3,058 | $2,584 |
| Segmented earnings before income taxes and general corporate expenses | $313 | $263 | $ 159 | $ 80 | $ 32 | $ 18 | $ (11) | $ (2) | $ 493 | $ 359 |
| General corporate expenses | (8) | (5) | (39) | (36) | | | | | (47) | (41) |
| Income taxes | (104) | (103) | (48) | (14) | (10) | (1) | 4 | | (158) | (118) |
| Net segment earnings | $201 | $155 | $ 72 | $ 30 | $ 22 | $ 17 | $ (7) | $ (2) | $ 288 | $ 200 |
| Gain on sale of portion of Syncrude interest (after tax) | | | | | | | | | | 14 |
| Interest on long-term debt after tax | | | | | | | | | (14) | (13) |
| Net earnings for the year | | | | | | | | | $ 288 | $ 187 |
| Assets employed at December 31: | | | | | | | | | | |
| Identifiable assets | $989 | $944 | $1,857 | $1,605 | | | $ (37) | $ (27) | $2,809 | $2,522 |
| Corporate assets | | | | | $477 | $239 | | | 477 | 239 |
| Investment in Amalgamated Bonanza | | | | | | | | | 2 | |
| Total assets | | | | | | | | | $3,288 | $2,761 |
| Capital expenditures — | | | | | | | | | | |
| Additions to property, plant and equipment | $128 | $235 | $ 47 | $ 124 | $ 69 | $ 11 | | | $ 244 | $ 370 |
| Exploration expenditures | 166 | 115 | | | | | | | 166 | 115 |
| Total capital expenditures | $294 | $350 | $ 47 | $ 124 | $ 69 | $ 11 | | | $ 410 | $ 485 |
| Depreciation, depletion and amortization | $ 52 | $ 33 | $ 68 | $ 54 | $ 3 | $ 2 | | | $ 123 | $ 89 |

# Five year financial summary

Amounts, except for unit statistics, expressed in millions of dollars

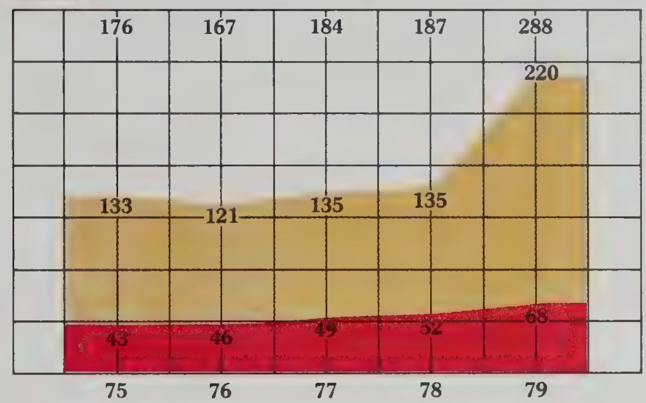
| | 1979 | 1978 | 1977 | 1976 | 1975 |
|---|---|---|---|---|---|
| **Balance Sheet** | | | | | |
| Current assets | $1,594 | $1,113 | $1,199 | $ 975 | $ 832 |
| Deduct: Current liabilities | 933 | 635 | 666 | 504 | 395 |
| Working capital | 661 | 478 | 533 | 471 | 437 |
| Property, plant and equipment — net | 1,607 | 1,567 | 1,298 | 1,009 | 829 |
| Investments, long-term receivables and other assets | 87 | 81 | 70 | 57 | 60 |
| Capital employed | 2,355 | 2,126 | 1,901 | 1,537 | 1,326 |
| Deduct: Long-term liabilities | 333 | 350 | 333 | 167 | 116 |
| Deferred income taxes | 383 | 357 | 284 | 221 | 182 |
| Shareholders' equity | $1,639 | $1,419 | $1,284 | $1,149 | $1,028 |
| Per share | $ 36.02 | $ 31.19 | $ 28.22 | $ 25.27 | $ 22.60 |
| **Capital Expenditures** | | | | | |
| Property, plant and equipment | $ 244 | $ 370 | $ 383 | $ 261 | $ 163 |
| Exploration expenditures | 166 | 115 | 111 | 62 | 56 |
| Total capital expenditures | $ 410 | $ 485 | $ 494 | $ 323 | $ 219 |
| **Earnings** | | | | | |
| Net revenues | $3,058 | $2,584 | $2,357 | $1,954 | $1,730 |
| Deduct | | | | | |
| Exploration and dry hole costs | 166 | 115 | 111 | 62 | 56 |
| Depreciation, depletion and amortization | 123 | 89 | 82 | 73 | 71 |
| Taxes, other than income taxes | 190 | 140 | 125 | 111 | 98 |
| Income taxes | 147 | 105 | 110 | 123 | 143 |
| Purchases and other expenses | 2,158 | 1,948 | 1,745 | 1,418 | 1,186 |
| | 2,784 | 2,397 | 2,173 | 1,787 | 1,554 |
| Earnings for the year before Syncrude gain | 274 | 187 | 184 | 167 | 176 |
| Gain on sale of portion of Syncrude interest | 14 | — | — | — | — |
| Earnings for the year | $ 288 | $ 187 | $ 184 | $ 167 | $ 176 |
| **Rate of Return** (per cent) | | | | | |
| On average capital employed | 13.5 | 9.9 | 11.4 | 11.9 | 14.5 |
| On average shareholders' equity | 18.8 | 13.8 | 15.1 | 15.3 | 18.3 |
| **Funds from Operations** | $ 410 | $ 349 | $ 332 | $ 278 | $ 266 |
| **Dividends Declared** | $ 68 | $ 52 | $ 49 | $ 46 | $ 43 |
| **Per Share** | | | | | |
| Earnings for the year | $ 6.33 | $ 4.11 | $ 4.04 | $ 3.67 | $ 3.87 |
| Cash dividends | $ 1.50 | $ 1.14 | $ 1.08 | $ 1.00 | $ .95 |

### Funds from operations
Millions of dollars



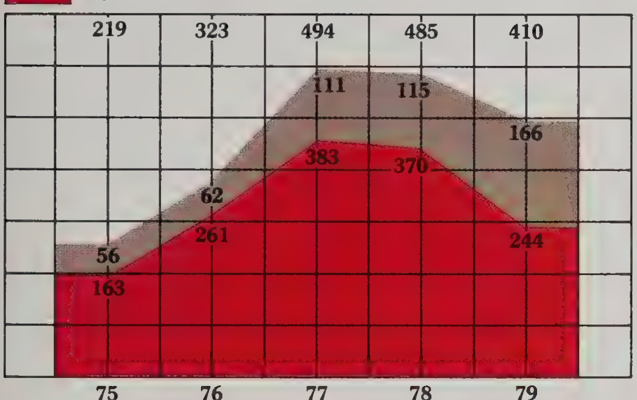

### Net earnings
Millions of dollars

Retained in business
Paid to shareholders



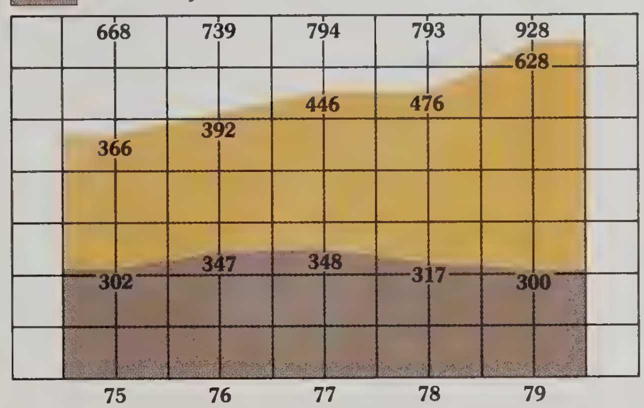

### Capital and exploration expenditures
Millions of dollars

Exploration expense
Capital



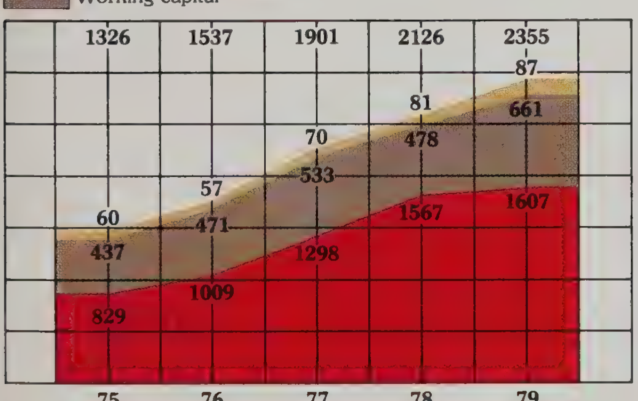

### Taxes and other government revenues
Millions of dollars

Collected for governments
Provided by Gulf Canada




### Capital employed
Millions of dollars

Other assets
Property, plant and equipment
Working capital



# Five year summary of operations

| | 1979 | 1978 | 1977 | 1976 | 1975 |
|---|---|---|---|---|---|
| **Crude and Natural Gas Liquids Produced** | | | | | |
| *(thousands of cubic metres)* | | | | | |
| Conventional | | | | | |
| Gross | 7,858 | 6,492 | 6,682 | 6,886 | 7,577 |
| Net | 5,379 | 4,334 | 4,426 | 4,697 | 5,266 |
| Per day — gross | 21.5 | 17.8 | 18.3 | 18.8 | 20.8 |
| — net | 14.8 | 11.9 | 12.1 | 12.9 | 14.5 |
| Synthetic | | | | | |
| Net | 396 | — | — | — | — |
| Per day | 1.1 | — | — | — | — |
| **Crude Oil Processed by and for the Corporation** | | | | | |
| *(thousands of cubic metres)* | | | | | |
| Total | 18,475 | 17,492 | 19,667 | 17,188 | 17,608 |
| Per day | 50.6 | 47.9 | 53.9 | 46.9 | 48.2 |
| **Petroleum Products Sold** | | | | | |
| *(thousands of cubic metres)* | | | | | |
| Total | 15,656 | 15,629 | 16,579 | 15,266 | 15,407 |
| Per day | 42.9 | 42.8 | 45.4 | 41.7 | 42.2 |
| **Natural Gas Produced and Sold** | | | | | |
| *(millions of cubic metres)* | | | | | |
| Gross | 3,996 | 3,839 | 4,283 | 4,538 | 4,835 |
| Net | 2,854 | 2,781 | 3,103 | 3,327 | 3,797 |
| Per day — gross | 11.0 | 10.5 | 11.7 | 12.4 | 13.2 |
| — net | 7.8 | 7.6 | 8.5 | 9.1 | 10.4 |
| **Petrochemical Sales** | | | | | |
| *(thousands of kilograms)* | | | | | |
| Total | 508,828 | 472,739 | 420,829 | 397,039 | 293,757 |
| Per day | 1,394 | 1,295 | 1,153 | 1,085 | 805 |
| **Sulphur Sales** | | | | | |
| *(tonnes)* | | | | | |
| Total | 284,790 | 315,868 | 349,519 | 258,609 | 205,994 |
| Per day | 780 | 866 | 957 | 706 | 565 |
| **Net Wells (Bore Holes) Capable of Producing at Year-End** | 1,578 | 1,546 | 1,499 | 1,437 | 1,400 |
| **Net Wells Drilled** | 83 | 89 | 108 | 59 | 45 |
| **Net Acreage under Lease, Reservation and Option (Hydrocarbons)** *(thousands of hectares)* | 11,990 | 10,963 | 10,133 | 10,344 | 10,553 |

# Gulf Canada Limited

**Officers**
J.L. Stoik, President and Chief Executive Officer
J.C. Phillips, Q.C., Chairman of the Board
R.C. Beal, Vice-President
W.H. Burkhiser, Vice-President and Treasurer
L.G. Dodd, Vice-President and Controller
R.E. Harris, Vice-President
C.G. Walker, Vice-President
E.E. Walker, Vice-President
W.M. Winterton, Vice-President, General Counsel and Secretary

**Directors**
J.D. Allan, Toronto
L.P. Blaser, Toronto
E.H. Crawford, Toronto
E.F. Crease, Halifax
Dr. D.S.R. Leighton, Banff
J.C. Phillips, Q.C., Toronto
Gérard Plourde, Montreal
Alfred Powis, Toronto
Kathleen M. Richardson, Winnipeg
R.G. Rogers, Vancouver
C.D. Shepard, Ottawa
J.L. Stoik, Toronto
W.H. Young, Hamilton

**Director Emeritus**
Beverley Matthews, Q.C., Toronto

**Head Office**
130 Adelaide St. West, Toronto, Ontario
M5H 3R6

**Marketing Region Offices**
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

**Chemicals**
Plants: Montreal East, Shawinigan and Varennes, Quebec

**Accounting and Data Processing Centres**
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

**Research and Development Centre**
Sheridan Park, Ontario

**Exploration/Production Offices**
Calgary, Edmonton and Stettler, Alberta; Estevan, Saskatchewan

Operated gas plants: Baptiste, Bashaw West, Buffalo Lake North, Gilby, Morrin-Ghost Pine, Nevis, North Sibbald, Pincher Creek, Rimbey, Strachan and Swalwell, Alberta

**Pipelines**
Operated pipelines: Alberta Products, Gulf Alberta, Gulf Saskatchewan, Rimbey, Saskatoon, Shawinigan and Valley

**Refineries**
Point Tupper, Nova Scotia; Montreal East, Quebec; Clarkson, Ontario; Edmonton, Alberta; Kamloops and Port Moody, British Columbia

**Asphalt Plants**
Moose Jaw, Saskatchewan; Calgary, Alberta

**Principal Affiliates (wholly owned)**
COMMERCIAL ALCOHOLS LIMITED
Head Office: Montreal, Quebec
President: W.A. Rogers

GULF CANADA PRODUCTS COMPANY
(A division of Gulf Canada Limited)
Head Office: Toronto, Ontario
L.P. Blaser, President
J.D. DeGrandis, Senior Vice-President
W.H. Griffin, Senior Vice-President
C.W. Fitzwilliam, Vice-President
W.J. Hindson, Vice-President
T. Matsushita, Vice-President
M.P. Peterson, Vice-President
K.C. Reeves, Vice-President
G.E. Bell, Secretary

GULF CANADA RESOURCES INC.
Head Office: Calgary, Alberta
S.K. McWalter, President
R.H. Carlyle, Senior Vice-President
E.M. Lakusta, Senior Vice-President
M. Bregazzi, Vice-President
C.K. Caldwell, Vice-President
D.R. Motyka, Vice-President
T.B. Simms, Vice-President and Treasurer
G.A. Holland, Secretary

SERVICO LIMITED
Head Office: Quebec, Quebec
President: W.H. Griffin

SUPERIOR PROPANE LIMITED
Head Office: Toronto, Ontario
President: A.L. Goerk

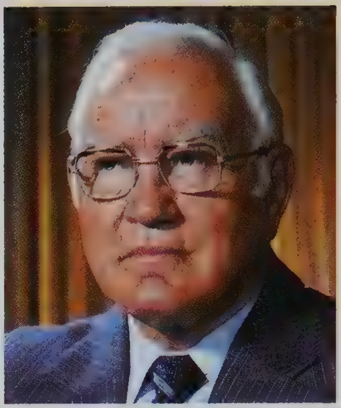
**Registrar**
Canada Permanent Trust Company, Toronto

**Transfer Agents**
Canada Permanent Trust Company — Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Saint John, New Brunswick; Charlottetown, Halifax, St. John's, Newfoundland

Registrar and Transfer Company — New York

# Directors

J.D. Allan
President, The Steel Company of Canada, Limited, Toronto, Ontario.

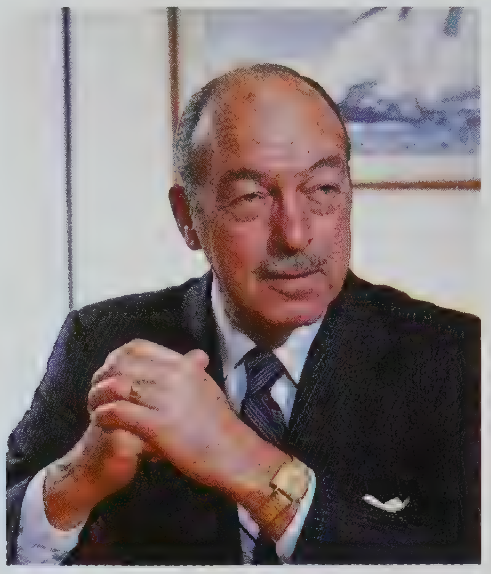


L.P. Blaser
President, Gulf Canada Products Company, Toronto, Ontario.

Gérard Plourde
Chairman of the Board, UAP Inc., Montreal, Quebec.

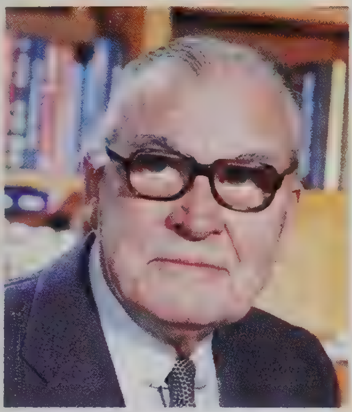
Kathleen M. Richardson
Director, James Richardson & Sons, Limited, Winnipeg, Manitoba.

D.S.R. Leighton
Director, Banff Centre, Banff, Alberta.

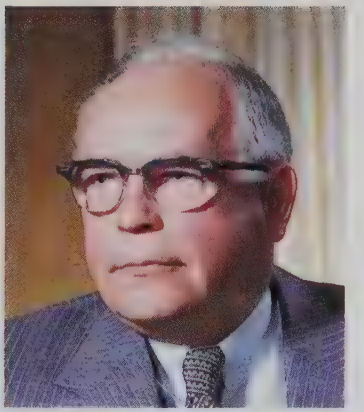


E.F. Crease
Chairman, Alfred J. Bell & Grant Limited, Halifax, Nova Scotia.

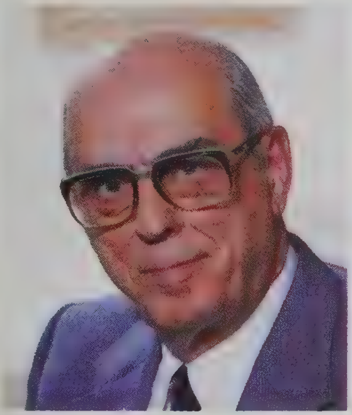
E.H. Crawford
President, The Canada Life Assurance Company, Toronto, Ontario.



**Beverley Matthews, Q.C.**
Director Emeritus, Toronto, Ontario.

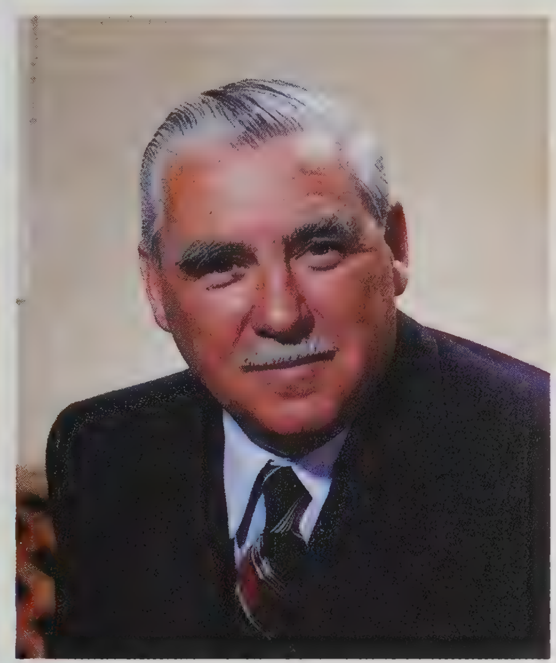


**J.C. Phillips, Q.C.**
Chairman of the Board, Gulf Canada Limited, Toronto, Ontario.



**C.D. Shepard**
Ottawa, Ontario.

**J.L. Stoik**
President and Chief Executive Officer, Gulf Canada Limited, Toronto, Ontario.



**R.G. Rogers**
Chairman of the Board, Crown Zellerbach Canada Limited, Vancouver, British Columbia.

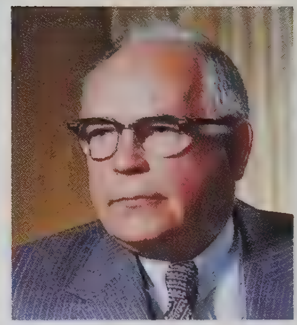
**W.H. Young**
President, The Hamilton Group Limited, Burlington, Ontario.

**Alfred Powis**
Chairman of the Board and President, Noranda Mines Limited, Toronto, Ontario.

# Officers

## GULF CANADA LIMITED

**J.L. Stoik,**
President and Chief Executive Officer.



**J.C. Phillips, Q.C.,**
Chairman of the Board.

**R.C. Beal,**
Vice-President, responsible for New Business Development and Research.

**W.H. Burkhiser,**
Vice-President and Treasurer.

**L.G. Dodd,**
Vice-President and Controller.

**R.E. Harris,**
Vice-President, responsible for Human Resources and Realty.

**C.G. Walker,**
Vice-President, responsible for Public Affairs.

**E.E. Walker,**
Vice-President, responsible for Corporate Planning.

**W.M. Winterton,**
Vice-President, General Counsel and Secretary.

## Conversion to Metric

**Table of basic metric conversion factors***

| Measurement | Traditional to Metric | Metric to Traditional |
|---|---|---|
| Length | 1 mile = 1.609 34 kilometres (km)<br>1 foot = 0.304 80 metre (m) | 1 km = 0.62137 mile<br>1 m = 3.28084 feet |
| Area | 1 acre = 0.404 69 hectare (ha) | 1 ha = 2.47103 acres |
| Volume | 1 gallon (Can.) = 4.546 09 litres (L)<br>1 barrel = 0.158 99 cubic metre ($m^3$)<br>1 MCF = 28.173 99 cubic metres ($m^3$) (natural gas) | 1 L = 0.21997 gallon (Can.)<br>1 $m^3$ = 6.28970 barrels<br>1 $m^3$ = 0.035494 MCF |
| Mass | 1 pound = 0.453 59 kilogram (kg)<br>1 long ton = 1.016 05 tonnes (t) (2,240 pounds)<br>1 short ton = 0.907 19 tonne (t) (2,000 pounds) | 1 kg = 2.20463 pounds<br>1 t = 0.98420 long ton<br>1 t = 1.10232 short tons |

*International System of Units (SI) conversion factors used by Canadian Petroleum Association in their statistical handbook effective January 1, 1979.

# GULF CANADA PRODUCTS COMPANY

the "downstream" division of Gulf Canada Limited responsible for refining, marketing, chemicals, and supply and distribution.

**L.P. Blaser,**
President.

**J.D. DeGrandis,**
Senior Vice-President, responsible for Planning and Control.

**W.H. Griffin,**
Senior Vice-President, responsible for Manufacturing, Marketing, Supply and Distribution.

**C.W. Fitzwilliam,**
Vice-President, Control.

**W.J. Hindson,**
Vice-President, Supply and Distribution.

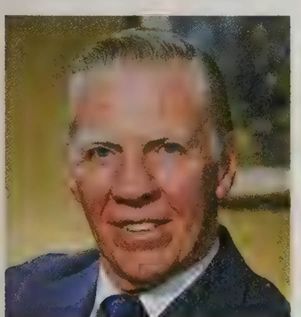
**T. Matsushita,**
Vice-President, Planning.

**M.P. Peterson,**
Vice-President, Marketing.

**K.C. Reeves,**
Vice-President, Manufacturing.

# GULF CANADA RESOURCES INC.

the "upstream" subsidiary of Gulf Canada Limited responsible for resource operations.

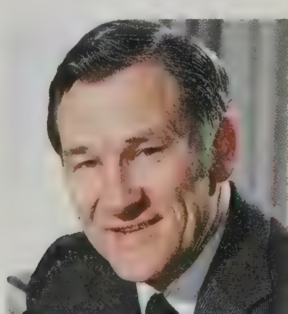


**S.K. McWalter,**
President.

**R.H. Carlyle,**
Senior Vice-President, responsible for Exploration.

**E.M. Lakusta,**
Senior Vice-President, responsible for Production.

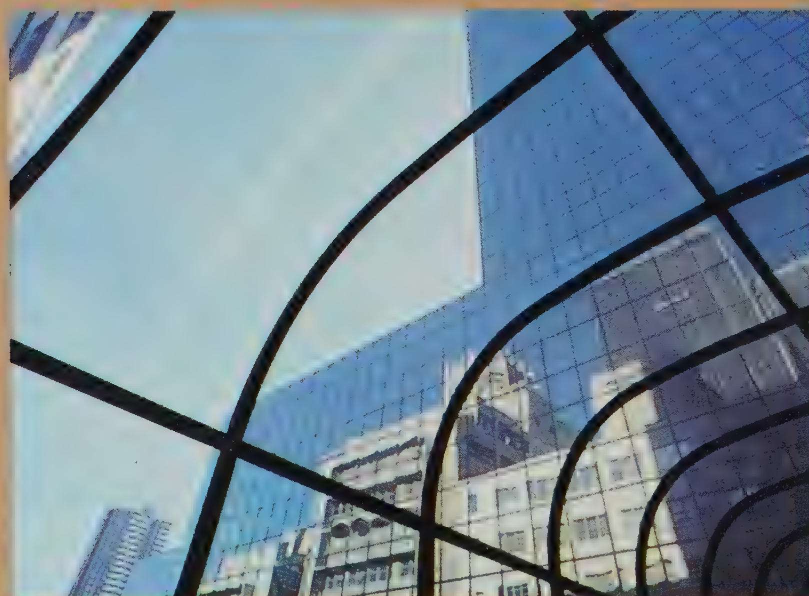
**M. Bregazzi,**
Vice-President, New Energy Resources.



**C.K. Caldwell,**
Vice-President, Exploration Operations.

**D.R. Motyka,**
Vice-President, Production Operations.

**T.B. Simms,**
Vice-President, Finance and Planning.



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Please notify the Share Register Department
477 Mount Pleasant Rd., Toronto M4S 2M1
of any change of address.

# Report to Shareholders

For six months ended June 30, 1979

file

GULF CANADA LIMITED

## GULF CANADA LIMITED
## CONSOLIDATED STATEMENT OF EARNINGS
### (Unaudited Interim Report)

| | Six Months Ended June 30 1979 | Six Months Ended June 30 1978* |
|---|---|---|
| | (Millions of dollars) | |
| **REVENUES:** | | |
| Gross sales and other operating revenues | $2,437.4 | $2,245.8 |
| Deduct – Crude oil sales | ( 941.8) | ( 833.7) |
| – Taxes collected for governments | ( 136.4) | ( 164.8) |
| Net sales and other operating revenues | 1,359.2 | 1,247.3 |
| Investment and sundry income | 20.9 | 16.8 |
| Net revenues | 1,380.1 | 1,264.1 |
| **EXPENSES:** | | |
| Purchased crude oil, products and merchandise | 654.4 | 665.3 |
| Operating expenses | 173.2 | 122.4 |
| Exploration, dry hole and other frontier area expenditures | 62.2 | 50.9 |
| Selling, general and administrative expenses | 169.2 | 160.0 |
| Depreciation, depletion and amortization | 58.3 | 43.8 |
| Interest on long-term liabilities | 12.7 | 12.8 |
| | 1,130.0 | 1,055.2 |
| Earnings before income and other taxes | 250.1 | 208.9 |
| Taxes: | | |
| Taxes other than taxes on income | 82.9 | 62.4 |
| Income taxes (includes deferred taxes of $28.9 in 1979; $41.3 in 1978) | 60.4 | 55.5 |
| | 143.3 | 117.9 |
| **EARNINGS FOR THE PERIOD** | $ 106.8 | $ 91.0 |
| Earnings per share | $ 2.35 | $ 2.00 |
| Common shares issued | 45,497,406 | 45,497,406 |

### OPERATING STATISTICS

| | Six Months Ended June 30 1979 | Six Months Ended June 30 1978 |
|---|---|---|
| | (Daily volumes) | |
| Gross crude oil and natural gas liquids produced – cubic metres | 21,403 | 17,454 |
| Gross natural gas sold – thousands of cubic metres | 11,700 | 11,708 |
| Crude oil processed – cubic metres | 49,161 | 51,491 |
| Petroleum products sold – cubic metres | 41,658 | 44,118 |

*Restated to give effect to revised oil and gas accounting practices adopted January 1, 1979.

## GULF CANADA LIMITED
## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
### (Unaudited Interim Report)

| | Six Months Ended June 30 1979 | 1978** |
|---|---|---|
| | (Millions of dollars) | |
| **SOURCE OF FUNDS:** | | |
| From operations* | $ 191.6 | $ 179.0 |
| Sales of properties | 8.4 | 4.4 |
| Long-term obligations | 1.6 | 30.5 |
| Sales of investments | — | 4.0 |
| | 201.6 | 217.9 |
| **USE OF FUNDS:** | | |
| Additions to property, plant and equipment | 76.5 | 206.8 |
| Reduction in long-term obligations | 13.5 | 2.5 |
| Dividends | 31.8 | 25.9 |
| Other (net) | ( .1) | .6 |
| | 121.7 | 235.8 |
| Increase (decrease) in working capital | 79.9 | ( 17.9) |
| Working capital, beginning of period** | 477.2 | 534.1 |
| Working capital, end of period | $ 557.1 | $ 516.2 |

*Earnings for the period adjusted for charges and credits not affecting working capital.
**Restated to give effect to revised oil and gas accounting practices adopted January 1, 1979.

## CONSOLIDATED STATEMENT OF WORKING CAPITAL
### (Unaudited Interim Report)

| | Six Months Ended June 30 1979 | 1978* |
|---|---|---|
| | (Millions of dollars) | |
| Cash and marketable securities | $ 146.5 | $ 109.8 |
| Accounts receivable | 543.3 | 512.0 |
| Inventories of crude oil, products and merchandise | 491.4 | 492.3 |
| Materials, supplies and prepaid expenses | 53.5 | 43.7 |
| Current assets | 1,234.7 | 1,157.8 |
| Short-term loans | 15.9 | 27.7 |
| Accounts payable and accrued liabilities | 523.7 | 523.7 |
| Income and other taxes payable | 78.6 | 49.5 |
| Current portion of long-term liabilities | 43.5 | 27.7 |
| Dividends payable | 15.9 | 13.0 |
| Current liabilities | 677.6 | 641.6 |
| Working capital | $ 557.1 | $ 516.2 |

*Restated to give effect to revised oil and gas accounting practices adopted January 1, 1979.

Toronto, Ontario, August 3, 1979

To The Shareholders:

**Earnings** . . . Net earnings for the six months ended June 30, 1979, were $106.8 million or $2.35 per share, compared with restated earnings of $91.0 million or $2.00 per share for the first half of 1978. The restatement for 1978 earnings results from the Corporation's adoption, January 1, 1979, of the oil and gas accounting practices prescribed by the Financial Accounting Standards Board and explained in the 1978 Annual Report to Shareholders. The effect on the first six months of 1979 has been to increase earnings by $8.6 million or $0.19 per share (1978: $3.5 million or $0.08 per share).

Natural resource profits improved due to larger volumes of crude oil produced and higher selling prices for both crude and natural gas. Partially offsetting these gains were higher expenses, mainly exploration and dry hole costs and the Syncrude operations from March 1, 1979.

Earnings from refined products declined as higher selling prices were not sufficient to cover increases in manufacturing and distribution costs. Chemical earnings improved as a result of increases in selling prices.

Capital and exploration spending totalled $138.7 million, a decrease of $119.0 million from the same period last year due to the completion of the construction phase of the Clarkson lube plant and the Syncrude project in 1978.

### TAXES AND OTHER GOVERNMENT REVENUES

| | Six Months Ended June 30 1979 | 1978* |
|---|---|---|
| | (Millions of dollars) | |
| From Gulf Canada: | | |
| Income taxes – current | $ 31.5 | $ 14.2 |
| – deferred | 28.9 | 41.3 |
| Other taxes | 82.9 | 62.4 |
| Petroleum and natural gas lease payments | 24.2 | 23.9 |
| Crown royalties, less incentive credits | 105.4 | 90.0 |
| | 272.9 | 231.8 |
| Collected for governments: | | |
| Gasoline, fuel, excise and export taxes | 136.4 | 164.8 |
| GRAND TOTAL | $409.3 | $396.6 |
| NET EARNINGS AFTER TAXES | $106.8 | $ 91.0 |

*Restated to give effect to revised oil and gas accounting practices adopted January 1, 1979.

### NEWS IN BRIEF

Following the establishment late last year of Gulf Canada Resources Inc., a Calgary-based subsidiary, Gulf Canada Limited announced the formation, effective July 1, of a Toronto-based "downstream" division, Gulf Canada Products Company, which will be responsible for Refining, Marketing, Chemicals and Supply and Distribution. The new corporate organizational structure will enable Gulf Canada to take better advantage of business opportunities through the 1980s.

Named as President of Gulf Canada Products Company is Gulf Canada Executive Vice-President L. P. Blaser. Reporting to Mr. Blaser are two Senior Vice-Presidents: J. D. DeGrandis, responsible for Planning and Control, and W. H. Griffin, responsible for Manufacturing, Marketing, and Supply and Distribution. They are presently Gulf Canada Vice-Presidents of Supply and Distribution and of Marketing.

**Exploration** . . . During the quarter, 19 exploratory wells were drilled, 18 in the western provinces and one in the Arctic Islands. Fifteen successes were recorded – eight conventional heavy oil wells in Saskatchewan; two light oil

and three gas wells in Alberta; one light oil well in British Columbia; and a major gas discovery in the Arctic Islands. At the end of June, Gulf Canada Resources was operating or participating in 17 exploratory wells.

In the Arctic, testing of the Whitefish wildcat well indicated a total of 52 metres (172 feet) of net pay from three gas zones. The potential reserve from this well is a significant factor in approaching the Arctic Islands threshold gas reserves needed to justify the economics of building a pipeline to the area. Gulf Canada will have a 32.5 per cent interest in the Whitefish well on completion of the Arctic Islands exploration program.

By the end of the quarter, Gulf Canada Resources had participated in the drilling of 18 wells under the Saskatchewan Heavy Oil Program. Fifteen are potential oil wells and one is a potential gas well.

**Production** . . . Crude oil production was increased to meet the high demand resulting from the shortage of Iranian crude in world markets. Gulf Canada's largest increase was in the Fenn-Big Valley field where volume went up from 3,498 to 5,247 cubic metres (22,000 to 33,000 barrels) per day. Lower gas production resulted from the current oversupply situation in Canada.

A total of 34 development wells were drilled in the quarter, of which 13 found oil and ten gas, and six were injection wells. The oil wells are located in the Swan Hills, South Swan Hills and Provost areas of Alberta, and in the Parkland area of British Columbia. Gas reserves were increased in the Coalbranch, Bellis, Fox Creek and Magrath areas of Alberta, and in the Beavertail area of British Columbia.

Experimental in-situ oil sands operations continued with the second phase of the fireflood pilot test at Wabasca. In the Pelican area, production testing was terminated and data are now being analyzed. At Cold Lake, the solvent steam stimulation test is still in the production phase, and single well oil production to date is nearing 1,400 cubic metres (8,800 barrels) per day. Preparations are continuing for a one-well single cycle steam stimulation test in the Surmont acreage.

In the Belcourt coal operations in British Columbia, a preliminary feasibility study of the potential mining areas is to be completed by March, 1980. In addition, Gulf Canada's program of sub-bituminous coal resource acquisition has been spurred by the discovery of the first significant coal outcrops on lands recently licensed in northeast British Columbia. Sub-bituminous coal lands have also been acquired in Alberta, and preliminary applications have been made on lands in British Columbia which may contain bituminous coal. Reconnaissance mapping is in progress in both areas.

The Syncrude facility operated one of two upgrading trains during the period and shipments of synthetic crude averaged almost 6,000 cubic metres (37,600 barrels) per day. Operation of the No. 2 coker upgrading train will now extend to August when the unit will be taken off line for maintenance. The No. 1 coker upgrading train started up again in early July.

**Supply and Distribution** . . . Two companies – Gulf Canada Limited and Home Oil Company Limited – have made a Canadian-based strategic oil storage proposal to the United States Department of Energy. The multi-million dollar project would create, by 1986, underground storage for eleven million cubic metres (68 million barrels) of crude oil in caverns to be washed out of salt desposits underlying the southern part of Cape Breton Island, north of the Strait of Canso.

This project would be a major undertaking, involving the construction of a new dock east of the existing ocean terminal at Gulf Canada's Point Tupper refinery, a triple pipeline system extending 16 kilometres (10 miles) north to a salt deposit near McIntyre Lake and an additional 16 kilometres to a second deposit near Kingsville.

As a result of the reduced world oil supply due to export limitations in Iran, significant upward pricing pressures developed in the second quarter. On April 2 the Organization of Petroleum Exporting Countries adopted a common 9.05 per cent increase, pushing the price of crude to $14.55 (U.S.) per barrel and at the same time allowing member countries to impose additional surcharges as judged appropriate for market conditions. On July 1 OPEC again moved the price of crude upward – this time to $18.00 (U.S.) per barrel with other member producers continuing with surcharges.

Canadian crude prices, controlled by the federal government, remained unchanged in the first half of the year. On June 21, however, the federal energy minister announced a $1.00 per barrel increase, based on the original agreement among federal and provincial energy ministers in June, 1977.

**Refining** . . . Crude and condensate processed in the second quarter totalled 4.6 million cubic metres (28.7 million barrels) or 81.5 per cent of capacity, slightly higher than the corresponding period last year.

Mechanical problems reduced gasoline production at Montreal East, Clarkson and Edmonton refineries, while operating difficulties were responsible for significantly lower volumes of lubricating oil from the new Clarkson plant.

To assure production and improve reliability, standby compressors and filters as well as additional intermediate tankage have been approved for the Clarkson lube oil facilities. Design and construction will require approximately 18 months.

**Marketing** . . . Product prices continued to strengthen particularly in Eastern Canada, with some improvement also evident in Ontario. Contributing to this upward price trend has been the tight supply situation world-wide for crude oil and the absence of product surpluses which previously had depressed prices in these areas.

The conversion to metric measurement, which began at the beginning of the year, is now well advanced throughout the industry. Most Gulf Canada retail outlets in major areas are now selling gasoline in litres with minimum objection or confusion on the part of consumers.

**Chemicals** . . . Second-quarter earnings continued to improve, reflecting the tight feedstock supply position as a result of strong market demands.

Although production rates in the quarter were marginally below those of the preceding three months as various plants took annual turnarounds, volumes for the first six months were ahead of last year, with the exception of olefins which remained at the same level.

Modernization of the calcium carbide furnace at Shawinigan is proceeding well and start-up is expected in early fall.

**Realty** . . . Occupancy of the Gulf Canada Square building by the Corporation's Calgary staff is now assured for September 1. Over 80 per cent of the rentable space in the building has already been leased.

The City of Toronto purchased the site of the Corporation's first refinery at Cherry and Keating Streets.

Chairman of the Board.

President.